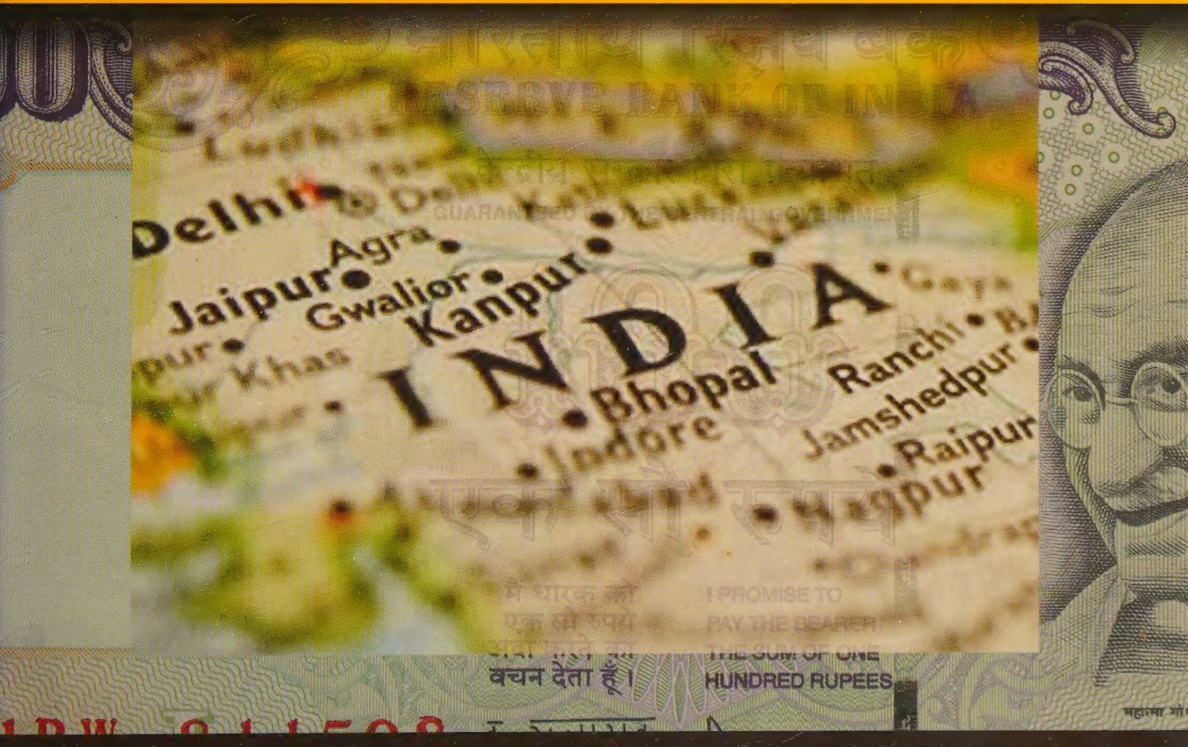
INDIAN ECONOMY SINCE INDEPENDENCE

Persisting Colonial Disruption



ARUN KUMAR

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This book presents a historical and political survey of India's economic development since independence. It analyses the post-independence developments in the context of the preceding British rule. It is argued that the major economic and other problems of post-independence India have their roots in the disruption of Indian society caused by colonisation. The country's persisting poverty, illiteracy, and general backwardness can be traced to the poor quality of political leadership because of its elitist roots, low investment due to the drain of the surplus, and the Indian society's loss of value for original and relevant ideas and knowledge.

The book highlights that there is a common explanation of how a handful of British could conquer India and rule over it for two hundred years and why independent India has not been able to overcome its problems over the last six decades. The colonial rule following Macaulay's prescription created an elite class that mediated between the British rulers and the common Indian. The resulting gap between the elite and people at large persists till today leading to a weak leadership, endemic corruption, policy failure and poor governance. Thus, for example, India remains trapped in a one-way globalisation, mindlessly copying irrelevant solutions from the West. Then, too, material progress since independence has been largely concentrated in the "modern" sectors, dictated largely by the stage of the world economy. Two separate circles of development got created, the rapidly developing modern one uncomfortably co-existing with the marginalised and crisis-ridden traditional sectors.

This is a magisterial, seminal work on independent India's economy by a renowned economist. It stands out because it probes various aspects of the Indian society in a holistic manner, including key events, the changing institutional setting, the evolving political economy and its theoretical understanding, the role of the black economy in policy failure and the stunting of societal dynamism due to the inadequacies in knowledge generation. Further, it integrates issues ignored by most analysts, such as the environment, the marginalised, sectoral imbalances, poor infrastructure, fiscal crisis, monetary policy difficulties, persisting under-employment, growing regional disparities, trade imbalances, the continuity with the pre-independence period, international

(Continued on back flap)

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Persisting Colonial Disruption

Arun Kumar

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Dedication

To my mother, Mrs. Kamla Gupta,
whose dogged and fierce independence in all matters
made me understand the idea / reality of disruption in society
and therefore what is lacking in our society
and why there is a need to go against the tide.

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Acknowledgements

Unlike in the case of an invention, where something is discovered for the first time, by someone or some group and even there the failures of others are an important source of learning by the successful inventor, in social sciences, there are hardly any completely original ideas. In that sense, this book is based on the developments in thinking about the Indian economy over the last many decades. Whether I explicitly mention a reference or not, I owe a debt to a large number of people whose works I have read. In this sense, I can only lay claim to some originality in the way I have organised the material, but that too may not be terribly original.

When the New Economic Policies (NEP) were launched in 1991, I realised that there was something deeply wrong in our society for such policies to become acceptable so suddenly. I realised that a holistic alternative was required and that was only possible in the shape of budgets. I thought of formulating an alternative budget and getting a consensus on alternative policies *via* this instrumentality.

I worked at them in 1992-94, looking at the Indian economy in a holistic fashion. And it is this that has influenced many of the formulations presented here. During the course of those two years I had interactions with many people and leaders from different walks of life. We created the Preparatory Committee for Alternative Economic Policies, and I am grateful to this group for the interaction and the challenges it threw up. Many of the things we anticipated and articulated in the two Alternative Budgets have turned out to be correct over the last eighteen years, and hence are relevant even today.

These alternative budgets were themselves influenced by the work I had done on the Indian economy in 1987-89 to help with the formulation of the Janata Dal, and the National Front manifestos.

It was clear to some of us even then that the economy was heading for a crisis and that the nation had to be prepared to formulate alternative policies. However, few accepted that diagnosis and things carried on as before. The sudden changes that started in June 1991 in our policy framework caught most people by surprise. Again, in August 1991 we were the first to organise a public meeting in VP House to oppose NEP as being anti-people. This led

to the setting up of the group to create the Alternative Budgets as vehicles for Alternative policies that could be pro-people. We interacted with many political leaders, NGOs, trade union leaders, academics and socially active people.

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ARUN KUMAR

January 2013

List of Abbreviations

ADB	Asian Development Bank
AESG	Alternative Economic Survey Group
AICTE	All India Council for Technical Education
APC	Agricultural Prices Commission
ASEAN	Association of Southeast Asian Nations
ASSOCHAM	The Associated Chambers of Commerce and Industry of India
BJP	Bharatiya Janata Party
BOP	Balance of Payments
BSNL	Bharat Sanchar Nigam Limited
BSP	Bahujan Samaj Party
CACP	Commission for Agriculture Costs and Prices
CAG	Comptroller and Auditor General of India
CA	Chartered Accountants
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CCI	Controller of Capital Issues
CBI	Central Bureau of Investigation
CDOT	Centre for Development of Telematics
CEC	Chief Election Commissioner
CENVAT	Central Value Added Tax
CFL	Compact Fluorescent Lamp
CIA	Central Intelligence Agency
CII	Confederation of Indian Industries
CIS	Commonwealth of Independent States
CJA	Campaign for Judicial Accountability
CJI	Chief Justice of India
CNG	Compressed Natural Gas
CPI (M)	Communist Party of India (Marxist)
CPI	Consumer Price Index
CRR	Cash Reserve Ratio

CSIR	Council of Scientific and Industrial Research
CVC	Central Vigilance Commission
CWG	Commonwealth Games
DDA	Delhi Development Authority
DMK	Dravida Munnetra Kazhagam
DoT	Department of Telecommunications
DPEP	District Primary Education Programme
DTAA	Double Taxation Avoidance Agreement
DST	Department of Science and Technology
EARC	Economic Administration Reforms Commission
EC	Election Commission
EWS	Economically Weaker Section
FC	Finance Commission
FCI	Food Corporation of India
FDI	Foreign Direct Investment
FERA	Foreign Exchange Regulation Act
FICCI	Federation of Indian Chambers of Commerce and Industry
FII	Foreign Institutional Investor
FMCG	Fast Moving Consumer Goods
FRBM	Fiscal Responsibility and Budget Management
FTA	Free Trade Agreement
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GM	Genetically Modified
GNP	Gross National Product
GOI	Government of India
GST	Goods and Services Tax
HDI	Human Development Index
IARI	Indian Agriculture Research Institute
IBM	International Business Machines
IBRD	International Bank for Reconstruction and Development
ICE	Information, Communication and Entertainment
ICMR	Indian Council of Medical Research
ICSSR	Indian Council of Social Science Research
ICT	Information and Communication Technology
IDR Act	Industrial Department and Regulation Act
IEBR	Internal and Extra Budgetary Resources

IIAS	Indian Institute of Advanced Study
IIITs	Indian Institutes of Information Technology
IIMs	Indian Institutes of Management
IITs	Indian Institutes of Technology
ILO	International Labour Organisation
ILP	Industrial Licensing Policy
IMF	International Monetary Fund
INA	Indian National Army
IPKF	Indian Peace Keeping Force
IPR	Intellectual Property Rights
IPS	Industrial Policy Statement
IRAHE	Independent Regulatory Authority of Higher Education
ISRO	Indian Space Research Organisation
IT	Information Technology
JMM	Jharkhand Mukti Morcha
JNUTA	Jawaharlal Nehru University Teachers Association
JPC	Joint Parliamentary Committee
LIBOR	London Interbank Offered Rate
LIC	Life Insurance Corporation
LPG	Liberalisation, Privatisation and Globalisation
LTTE	Liberation Tigers of Tamil Eelam
M&A	Mergers and Acquisitions
MCD	Municipal Corporation of Delhi
MDG	Millennium Development Goals
MGNREGS	Mahatma Gandhi National Rural Employment Guarantee Scheme
MNC	Multi-National Corporation
MODVAT	Modified Value Added Tax
MOU	Memorandum of Understanding
MRP	Maximum Retail Price
MRTP	Monopolies and Restrictive Trade Practices
NAAC	National Assessment and Accreditation Council
NABARD	National Bank for Agriculture and Rural Development
NAM	Non-Aligned Movement
NAS	National Accounts Statistics
NBA	Narmada Bachao Andolan
NCAER	National Council of Applied Economic Research

NCERT	National Council of Educational Research and Training
NCR	National Capital Region
NDA	National Democratic Alliance
NEP	New Economic Policies
NIC	Newly Industrialising Countries
NIPCCD	National Institute of Public Cooperation and Child Development
NIPFP	National Institute of Public Finance and Policy
NIT	National Institute of Technology
NREGA	National Rural Employment Guarantee Act
NRHM	National Rural Health Mission
NRI	Non Resident Indian
NSS	National Sample Survey
NSSO	National Sample Survey Organisation
NTPC	National Thermal Power Corporation
OBC	Other Backward Castes
OECD	Organisation for Economic Co-operation and Development
ONGC	Oil and Natural Gas Commission
OPEC	Organisation of the Petroleum Exporting Countries
P&T	Post & Telegraph
PACS	Picture Archiving and Communication System
PCARDB	Primary Cooperative Agriculture and Rural Development Banks
PDS	Public Distribution System
PHDCCI	PHD Chamber of Commerce and Industry
PMO	Prime Minister's Office
PMP	Phased Manufacturing Programme
PN	Participatory Note
PNE	Peaceful Nuclear Explosion
PNAC	Project for the New American Century
PPP	Purchasing Power Parity / Public Private Partnership
PSU	Public Sector Unit
RAW	Research and Analysis Wing
RBI	Reserve Bank of India
RITES	Rail India Technical and Engineering Service
RSS	Rashtriya Swayamsevak Sangh
RTI	Right to Information
S&T	Science & Technology
SAFTA	South Asian Free Trade Area

SAL	Structural Adjustment Loans
SAP	Structural Adjustment Programme
SC	Scheduled Castes
SCARDB	State Co-Operative Agriculture and Rural Development Banks
SEB	State Electricity Board
SEZ	Special Economic Zone
SIDBI	Small Industries Development Bank of India
SLR	Statutory Liquidity Ratio
SP	Samajwadi Party
SSA	Sarva Shiksha Abhiyan
SSI	Small Scale Industries
ST	Scheduled Tribes
TI	Transparency International
TINA	There Is No Alternative
TISS	Tata Institute of Social Sciences
TOI	Times of India
TRIMS	Trade in Investment Measures
TRIPS	Trade in Intellectual Property Rights
UBS	Union Bank of Switzerland
UF	United Front
UGC	University Grants Commission
ULCA	Urban Land Ceiling Act
UN	United Nations
UNDP	United Nations Development Programme
UNIDO	United Nations Industrial Development Organisation
UPA	United Progressive Alliance
UTI	Unit Trust of India
VAT	Value Added Tax
VDIS	Voluntary Disclosure of Income Scheme
VC	Vice Chancellor
WB	World Bank
WHO	World Health Organisation
WMD	Weapon of Mass Destruction
WPI	Wholesale Price Index
WTO	World Trade Organisation

Preface

1. Why Another Book on Indian Economy

There are any number of books on the Indian economy and its various facets (like, Bhardwaj, 1974, Bhagawati and Desai, 1970, Chakravarty, 1988, McCartney, 2009) and many edited volumes (like, Lucas and Papanek, 1987, and RBI, 1997) but this one promises to be different. But doesn't every good book on India promise to be different from others, or claim to have a different framework? This volume aspires to be different because of its holistic approach to the post-independence developments in India.

There are many edited volumes consisting of collections of papers with few inter-linkages and presenting a compartmentalised view of society and the economy. The overall link in such books is, at best, a stringing together of some ideas that falls considerably short of a holistic view. In this book, in contrast, aspects ignored by most analysts such as the continuity with the pre-independence period, international developments, the role of knowledge generation through education and science and technology (S & T) as well as the black economy are brought into the analysis in an integrated way. Another aspect analysts overlook, the hierarchy of policies, is also paid attention to here.

Further, it not only presents an economic interpretation of events but also the way social sciences should be practised. It gives weight to the historical and political aspects of the development of the Indian economy. It is only through such an integrated approach that new knowledge emerges and which has become necessary to overcome the deep-rooted problems that Indian society confronts today.

It is self-evident that neither does an economy suddenly materialise out of thin air at a point of time nor do events occur purely in an isolated and timeless manner. Hence, analysis requires a historical component. So, the present volume analyses the post-independence developments in the context of events in the pre-independence period, namely the British colonial rule.

Should we then, for continuity, go even further back in time? Not necessarily, if there are important "break points" that mark big social changes or philosophical paradigm shifts which allow us to limit the going back in time indefinitely. This is not to deny that, theoretically, influences would continue

from one period to the next. There is also a practicality involved in this way of choosing the starting point of an analysis. The underlying assumption is that the British period incorporates the influences of the prior periods and so these need not be taken into account separately. Accordingly, in this book the analysis starts with the British rule — and its beginning is taken as an important break point — as being the most important influence for developments in India after 1947, which date is also taken as an important break point.

While the book takes into account some historical developments, it is neither a historical narration nor an analysis of India's history which only a well-trained historian can attempt, such as Chandra, *et al.* (2000), Gandhi (2006) or Kumar (2006). Here, the method will be the one economists use, namely stylised facts will be used to analyse both important developments in the past and how they impact the present. The difference from other economic analysts will turn out to be that rather than use just a few, many stylised facts will be used along with their inter-relationships. Any injustice that the method used here might do to the historical method calls for an apology to historians and, yet, the author hopes that the analysis presented here would be of some value to them as well.

The focus in the book on the analysis of the post-independence period is also dictated by the paucity — and quality — of the data available for the pre-independence period. In 1947, India embarked on a new project not only to rebuild its destiny but also to record its changing fortunes more extensively even if there are flaws of various kinds in the data collected (for an elaboration of this, *see* Chapter I, Section 2).

Usually, in economics there is equivocation — the glass is half full or half empty. This book suggests that there is a need to come to judgements on issues and events. There are pluses and minuses of any situation. Analysts often point to one or the other aspect and draw their conclusions. At times, those who see some positives in a situation consider them as adequate justification for lauding what happened. In this book, in contrast, it is argued that there is a need to see how the positives and the negatives weigh up and come to a judgement about the net effect.

For instance, in Kumar (1997) it has been argued from a nationalist perspective that, even though British rule introduced many innovations and set up institutions in India, such as the railways, modern universities, the civil service, etc., the negative aspects of colonisation far outweigh the positives so that the overall assessment has to be that British rule was harmful to India. For the apologists of the colonial rule, however, the British were a civilising influence on the nation; they point to such innovations and institutions as being sufficient / adequate to justify the rule. They also do not see that the post-independence development of the nation shows that there was tremendous potential for development which the British rule suppressed.

Another instance one can think of is cigarette smoking, which yields much revenue for the governments all over the world. This is used by the apologists of the cigarette industry to justify pushing for smoking. In spite of this, one can conclude that this activity is harmful to the human race because of its health effects, which impose heavy costs. After all, revenues can be raised from alternative sources and hence cigarette smoking should be discouraged.

Not coming to a judgement prevents action and allows things to continue as they are. Any change requires building an understanding of the social situation, taking a stand, and acting on it. The British colonisation of India created its own constituency of brown sahibs, which sees colonisation in a positive light and therefore finds no need for change.

1.1 Development of a Holistic Perspective on the Economy

Free India generated high expectations both within the country and globally. However, there have been such huge disappointments that the successes and achievements of independent India are often overlooked.

This is because:

- much more was expected, and
- also because some other nations in a similar situation to India in the late 1940s have rapidly pulled ahead.

There is also disquiet because disparities have gone up substantially and the marginalised remain mostly at the margins of society; distribution has not been taken care of and, of late, in a bid to get higher growth, it has been completely overlooked and the marginals ignored even more than earlier. This volume tries to correct that shortcoming of currently available analysis by invoking the well known Gandhian idea, "last person first".

I have been fortunate that I have repeatedly had a chance to look at the Indian economy from a holistic perspective and not just in bits and pieces. There was early realisation of the need for a wider perspective on society during the rural development work that I tried my hand at between leaving a Ph.D. in physics and starting a Ph.D. in economics. That interregnum taught me that economics is often counter-intuitive and that often common sense may not be a good guide to understanding it. While working for my thesis, I analysed the macro aspects of the Indian economy and realised that the totality is important for any realistic understanding of the complex situation we are confronted with.

The work on the black economy in India that I did in the early 1980s for the Central Board of Direct Taxes (CBDT) again steered me in the direction of analysing the wider structures of society and the economy. The micro-based explanations seemed to be totally inadequate for any proper understanding of this subject and of society in general.

In 1987, I was requested by friends to help in the drafting of the manifesto for the Janata Dal that had just been formed. It became clear that the economy was headed for a crisis and there was a need to evolve an alternative. I could not convince other colleagues in the Economics Department in my university (Jawaharlal Nehru University) but I applied myself to working towards an alternative.

In 1989, I was asked by the leadership of the newly-formed National Front to help in the drafting of its manifesto for the approaching elections. Due to the economic profligacy during the 1980s, the oil shock, and the decline of the Soviet bloc, the Indian economic and political situation was rapidly deteriorating, and once again a macro understanding was required.

June 1991 saw the launch of the New Economic Policies (NEP), something that was unthinkable until then. This forced me to reflect on how such right wing policies could be launched so quickly in a very poor but democratic country. I edited the Lokayan Bulletin in November 1991 bringing together a holistic understanding of the Indian situation. In 1993 and 1994, some of us created a committee for working out alternative policies and presented them in the shape of the alternative budget (Kumar, 1994a). This was discussed in a citizen's parliament in February 1994. It presented a holistic view of the Indian economy and what a people-centred alternative to the NEP could be.

The rapid introduction of the anti-people NEP with so little political opposition in the country brought about the realisation that something much deeper was going on in the country and that this had to relate to the psyche of the ruling elite, the helplessness of the majority and the weakness of democracy in India. Slowly, it dawned on me that this must also relate to long-term factors with links to developments in the country's pre-independence period. In turn, this led me to develop the idea of social disruption due to colonisation. It also occurred to me that this disruption had to be basic and all-pervasive and therefore linked to almost all aspects of society.

The rapid changes in the perspective of policy makers, bureaucrats, intellectuals and other elite groups since the mid-1970s also suggested that there were deeper reasons, such as the increasing sway of the IMF, the World Bank and the USA on policy making. This influence was a result of the revolving door policy which allowed influential Indians to go to these institutions and come back for the lure of the money that such international institutions offered. This was not a difficult transition for the Indian elite which, since colonial rule, had internalised the belief that foreign was better — the

nationalistic fervour lasted for only a short while after independence. A selfish streak welled rapidly in the elite which catered to their desire to push narrowly for self and family and this took precedence over the need for an independent stance for the nation. All of this needed to be understood in a wider perspective.

The work on the alternative policies also required a deeper understanding of the process of globalisation, which also forced me to take a wider view of the situation. In 1999, I completed the book, *The Black Economy in India*, and while working on it, I had to take a holistic approach to the Indian economy.

The Indian economy courses I have taught in the Masters programme in JNU have also required me to bring together a lot of the scattered material, situate it in a historical perspective and to understand our inability to find indigenous solutions to our problems. This helped me understand the link between the colonial period and India's loss of dynamism.

My work on India's education system and the policies for it since the mid-1980s inevitably led me to realise that Indians as a nation do not value ideas any more. This, in turn, fitted in with the idea of the loss of dynamism during the colonial period. The education policy introduced by the British, to colonise the Indian mind, had an important bearing on this (discussed in detail in Chapters II and XI). All these realisations eventually fitted together just as the pieces of a jigsaw puzzle do to produce a holistic perspective, and have taken shape in the form of this volume.

2. Methodological Aspects

Present day writing on economics mostly follows a narrow path since the subject itself is getting split into narrow specialisations. Further, what constitutes economics within social sciences is increasingly narrowly defined. Most economists are hardly familiar with the various sub-disciplines in their own subject, much less in related areas such as history, political science and sociology. Specialisation has become progressively intense and led to narrowing of focus of experts and therefore making their work (especially of economists) less accessible to the interested public and to specialists from other fields.

Economists writing on a broad theme like the Indian economy also typically work within given parameters, such as narrowly defined social goals, borrowed frameworks and the shrinking of horizons both in space and time. India is often not situated in the wider global setting even though globalisation is now quite significant. Similarly, even though time is brought into the analysis it usually only refers to the short term. Finally, before starting any analysis, it is not clarified what is meant by the Indian nation, who its

constituents are, and whether there are any reasons for their being together other than that they share a geographical area.

It may legitimately be asked why the focus should be on India and not the wider international setting. The reason is that "nation" is an acceptable idea at the present historical juncture, and many of our actions and thoughts are guided by this notion. In spite of talk of the global village, the nation remains an important category for economic analysis. This is especially true for the marginalised sections of India's population who are even more localised than the entity called nation. Most Indian citizens have limited mobility and even more limited access to information about the world beyond their own local areas, in spite of the deep penetration of television which has mostly remained an instrument of entertainment. The very complex world outside their domain of perception appears cloaked in a haze difficult to penetrate. Hence for a vast majority of Indians, the nation remains the relevant entity for analysis. For the state and its policies, too, the nation is the basis of actions, hence its relevance.

2.1 Human Progress as a Social Construct

The progress of human beings and of society has gone through phases so needs to be defined with reference to a certain time frame. Most analysts writing on the subject do not do so perhaps because they only have the short run in mind. Further, in modern times, progress is mostly identified with rising material consumption and economic well-being. This misses the other dimensions of human progress — social, political, cultural and, in the present-day context, the environmental. In recent times, in the realm of human affairs, the economic has dominated to the exclusion of all else because we are increasingly becoming homo-economicus (predominantly economically defined).

Defining progress is becoming harder, given the growing social strife in the world and also in India. There is rising crime, terrorism and growing psychological problems that even affect children. How does this square up with notions of progress? Further, aspects such as the ongoing environmental degradation with the consequent threats of global climate change or the rapid disappearance of species challenge any purely economic definition of progress.

Progress has to be defined in the global context, in terms of resources and environment. Both humankind and society have evolved over time not in some abstract conditions, but in the specific milieu of a particular evolving (not static) global environment. Human beings emerged at the end of more than a billion years of evolution of life from elementary and primitive forms. As is said, we are but a blip in the life of this planet. By the time humans started emerging, our surroundings had been largely settled for millions of

years. But now, within a matter of a few decades, and possibly a century, we have not only displaced and churned up large quantities of substances in our environment but introduced a huge number of new chemicals that did not occur naturally. For instance, in our homes and places of work, we live in close proximity to various kinds of heavy metals (*see* Marsa, 2008) that had settled in our environment over tens or hundreds of millions of years and which are leading presently to increased toxicity and disease (*see* Smith, *et al.,* 1999 and WHO 1997 and WHO 2002).

The introduction in the last twenty years of the ubiquitous plastic bags for carrying goods is posing a problem for the environment — choking rivers and gutters, littering the urban landscape and hillsides, spreading toxicity in landfill sites, leading to the choking of fish or clogging of intestines of cattle, and so on. Similarly, the use of mercury-based tube lights or CFL lamps in place of incandescent bulbs in order to save energy has led to disposal problems of these new light fixtures and the growing danger of mercury poisoning. Progress, narrowly defined, is resulting in problems whose solutions have turned out to be non-solutions, and have led to bigger problems.

We evolved in a biological soup with a myriad variety of life forms and organisms surrounding us. A substantial amount of our body weight is made up of other living organisms. Our body is a host to them, and we benefit from their existence inside us. A balance had been achieved during the process of evolution to enable our becoming human but this has been rapidly disturbed in the last century or so. The use of pesticides and the presence of new chemicals is changing the organic soup around us. Further, because of the complexity involved, we do not know or understand in what direction and with what consequences.

The use of pesticide sprays in homes and fields punches holes in the soup by killing many of the organisms, and disturbs the delicate balance between them. This can trigger the emergence of new organisms or to the evolution of new forms of current organisms in the soup, against which we have little or no resistance since that takes time to build up. Those organisms that adjust better to the chemical spray may become dominant but we may be maladjusted to them, and this would create problems for us. Similarly, the use of chemical manure changes the nature of the nutrients for the plants and introduces them into our bodies through our food. The list is unending.

While humankind may have weathered many a challenge in the past, the very nature of the uncertainty of the future suggests that this state of affairs may not last for long. Since the earth as we know it is likely to survive a few billion years more, the "long" referred to is very long by our current scale of thinking. Hence, we need to be circumspect about what we consider to be progress and not be brash, as we have been in the last few centuries.

While our understanding of the world around us is growing by leaps and bounds, it is also becoming apparent that the world is a far too complex a place for humankind to comprehend even at the margins and much less in its totality. It has to be accepted that the human race is not yet smart enough to take into account all the consequences of its actions in planning for the future so that more and more mistakes are being made all the time.

While nature itself is complex, societies, the creation of humanity, have also increased in complexity. These two together are causing growing confusion for mankind and clouding our perceptions. Understanding the changes taking place and figuring out where mankind is headed has become a difficult if not an impossible task. Even the leaderships of most countries — and this is certainly the case with India — have little understanding of where they are taking their countries. This leaves the citizens confused, at best, and alienated.

The pace of social and technological change has become so fast that societies often discover their mistakes too late to correct them. By the time the mistakes are recognised for what they are, little can be done. This causes fresh problems to crop up that are hard to anticipate. All the new mistakes accumulate and add to the pre-existing social problems to create situations that are becoming harder to resolve. As the global financial crisis of 2007 to 2009 brings out clearly, mistakes are not self-correcting hence get compounded. In a sense, what all this is pointing to is that humankind, in pursuit of thoughtless progress, may be going beyond the carrying capacity of either the environment or society. Is there a way out of this predicament?

Democratic structures in society have a greater capacity for self-correction than its predecessors, and could help deal with the growing problems. So, progress must imply more democratic functioning. Unfortunately, in much of the world, undemocratic or feudal tendencies have been getting reinforced, especially, with the shift to the right, and the strengthening of the conservative and the fundamentalist tendencies, since the late 1970s. These tend to glorify the past and seek solutions there so they lack the capacity to self-correct in the emerging situations and therefore are inadequately equipped to deal with the present. The result is "short termism" and non-solutions.

The US predicament in Iraq is an example of how a nation can get trapped in a quagmire due to the autocratic tendencies of its leadership, which did not respect the democratic opinion of its own people. In contrast, India escaped getting drawn into this mess because democratic consultation prevailed and the government had to listen to the opposition.

Both society and nation are the constructs of human beings. They have an existence beyond what nature has created. While it may be said that our genes dispose us to band together just as wolves stay in packs with a social

organisation, or ants and bees work together and cooperate as colonies but this does not fully explain the nature of different societies. The emergence of collectivities in nature has a wide variety and is not unique. Each form of grouping has its own social organisation. While for many species the specific form of grouping is dictated by nature, for humankind this proposition is less valid. That is how a diversity of societies and nations has emerged. Within nations, too, local groups may have their own unique characteristics.

In India, whichever direction we move in, the dialect, the food, marriage customs, change, every hundred kilometres. There is an enormous heterogeneity — and this is one of the strong points of the country and also one of its weaknesses. Progress has led to a reduction in this diversity while it should have been the opposite.

Any social construct has to be within the constraints of nature. Deviations can only be temporary. In the long run it is a constraint on society and its organisation. Are unlimited wants and consumption possible given that the globe is finite (the Malthusian question)? In the last century, we have acted as if there is no stopping us and we are increasingly paying for it — perhaps the poor more than the well off; but nonetheless the costs are rising for everyone. The contradictions of such progress are all around us. Even though longevity has risen, the older generation increasingly lives lonely and truncated lives, their dignity compromised by diseases and dysfunctionality. Ayurveda, based on a holistic view of life, promotes healthy living at whatever age. But progress has meant treating Ayurveda as backward and displacing it with modern medicine, which has made tremendous advances but is less holistic and leads to a variety of new problems for the people it treats.

Humankind has to understand its limits. The earth is like a spaceship with its given resources — its given carrying capacity. In a spaceship going to the moon, every gram of what goes up has to be counted. If we were to set up colonies on the moon, great care would have to be taken of what would be needed there, how much could be supplied from the earth and what would have to be generated there. Similar considerations would apply for interplanetary travel that would take years. Constraints on what could be sent up would be even more severe. The needs of the astronauts would have to be kept to a minimum, and recycling would have to be practiced which is not necessary for a trip to the moon.

In the same vein, the earth is also like a spaceship coasting through this universe and life has to survive over the next few billion years. That is why, even though the earth has huge resources, it also requires a lot of recycling mechanisms and a regeneration of things. These are the constraints on humankind. Population has risen and progress has meant that consumption per head has also grown. As a result, recycling and regeneration have come under strain and the limits, dictated by the length of time over which life has to

sustain itself on earth, are being crossed resulting in a long-term crisis. Thus, while it may appear that in the long run there are few constraints, in fact, they are quite severe.

We are a life form that has evolved in a given organic and inorganic soup. If we disturb it beyond a point, we will not be able to sustain ourselves. The purpose of society or nation cannot be its own destruction. Just like organisms try to survive under all circumstances, so should society. Organisms have an inbuilt mechanism for survival but if the environment changes beyond a point they become extinct. Society has an advantage that it is a construct and its structure can be adjusted to suit the changing environment. Hence, it is potentially everlasting. But this requires a degree of perspicacity and wisdom that is not presently in evidence.

The debate between Malthus and Ricardo has to be set in this global context and over the long-term; something that Ricardo missed. Even technology has its limits set by the global situation. Earlier we were consuming a tiny per cent of the world's resources annually but that is not the case now. Further, the interconnections between various systems are many, so that disturbances in any one of them feed into the others and magnify the original disturbance. This can result in a tipping point, as is currently being feared for climate change.

It is also possible that one country, or a group, can progress at the expense of others. The advanced countries have done so at the expense of the developing world, and the rich in the latter at the cost of their marginalised. This is akin to the idea that entropy has to increase over time but may decline in one part and rise in others. However, in the long run, even this is unsustainable, given that the overall entropy has to rise. Similarly, social organisations may find it difficult to carry the burden of the waste associated with inequality in the system and may become inefficient. All these factors, the time-frame, environment, democracy, inequality and so on, need to be reflected in any holistic analysis of what we imply by progress.

2.2 Freedom as an Evolutionary Process

According to Mao, as reported by Kissinger (Burr, 1999), India never did become free. It simply changed one master for another. According to some others, power simply passed from the white sahibs to the brown sahibs and Indians did not experience true independence. Yet others, in a slightly different vein, feel that India is still only a nation in the making.

Those in jail with the top leadership of the Congress party in 1942 suggest that they sensed that the leaders wanted to gain power quickly. Gandhi felt that they did not even wish to listen to him because he wanted a proper resolution of the Hindu-Muslim question so that the nation would not get

divided. It could perhaps be argued that the leaders were impatient because the population was suffering due to colonial rule and they genuinely believed that the more quickly independence came the better it would be for the country. Some others suggest, however, that the desire of the leadership was to rule and not necessarily to serve the nation and the people. Gandhi's idea of disbanding the Congress party was also not favoured, perhaps because of this desire to attain power quickly.

During the national movement itself there was a marginalisation of the ideas of Gandhi, who was talking of village republics. The leadership of the party used Gandhi, who in some sense was the father of the freedom movement, but later increasingly sidelined him and his ideas of serving the people in order to benefit the Indian elite — the businessmen, the professionals and the other middle classes. Nehru felt that the villages were backward and so how could any good come out of them. This process of marginalisation of the majority continued after independence.

It may also be argued that freedom and independence are evolving concepts. Indians were not completely "unfree" even during colonial rule. Thus, while the British had their way politically and economically, they had less impact at the social and cultural levels. After independence, the degree of unfreedom changed but it did not disappear completely and its effects can still be seen in our attitudes. So, in a sense, in this book one is looking at the continuance of "unfreedom".

2.3 Defining the Phases of the Economy

Societies change over time but some changes are defining moments which alter the course of society; its very history. These moments may be defined as break points and can form the starting points of any analysis, historical or otherwise. In India's case, Independence constitutes a break point. Indians had their destiny in their own hands after a long interregnum in which they suffered setbacks in every conceivable way. There were huge expectations from this, and subsequently there has been much disappointment. Independence represented a major mindset change both for the leadership and the people and affected society, the economy, the government and its policies.

A practical reason for analysing the post-independence period is that the data for the earlier period is weak or unavailable with respect to many of the important variables. Hence, its analysis can only be in broad terms. Finally, there is the practical aspect of limiting the period analysed without doing too much violence to the analysis.

Often, economists analyse the rates of growth of the economy and its various characteristics, such as income, investments, literacy, etc. They attempt to identify changes or the impact of important events or policy actions.

Such changes are used to define the various phases of the economy during which certain influences are dominant, and these may be identified as the causal variables.

Growth rates are a consequence of the many aspects or activities going on in the economy in particular and society in general. Thus, it may be futile to use shifts in growth rates (as is common practice amongst economists) to identify the various phases of an economy. Instead, it is necessary to look at the causes underlying the changes in the growth rates to identify the phases. Since the causes start acting before the shift in the growth rate takes place, the phase can be said to begin before the growth rate shifts.

So, a phase of a society or an economy may show high and low growth rates and not just a consistent high or a consistent low rate of growth. An economist is all too familiar with a business cycle with fluctuating rates of growth. Thus, a business cycle with a common explanation should not be seen to be consisting of several phases of the economy. A given multiplier accelerator interaction generates all the ups and downs so that there is one common explanation for these so called "phases". As argued by Hicks (1969), a trend and a cycle may have a common explanation and one should not separate one from the other and seek different explanations for them. The multiplier accelerator interaction provides a common explanation for both.

3. The Idea of a Disrupted Society

This book takes a historical view of the post-independence developments in India, linking them to events and processes during the colonial period. It is argued that colonisation rips apart the social relations within a country and puts them in the control of the colonisers. India's colonial masters created a local ruling elite answerable to them so that it could control the rest of the population on their behalf. The interests of the local population were unimportant compared to those of the colonial power. These two aspects constituted important aspects of the disruption suffered by society (*see* Chapter II, Section 5).

The interests of the rulers were based on their own national interest, which was external to India. Hence, issues such as what kind of output to produce or what kind of technology to introduce in the country were determined by the British national interest. Thus, the introduction of the railways primarily served the British interest while the Indian interest was only marginal and incidental. Similarly, the setting up of universities and the curricula they followed were to serve the purpose of producing clerks for the civil service and not necessarily to promote the interest of the Indian people. That

is why science and technology were not given due importance during the British rule.

In essence, India became a disrupted society because its social relations were disturbed or torn apart and linked to the interests of external powers. This changed both the nation's dynamics and dented its dynamism. Such disruptions tend to become structural and so do not easily disappear because new social relations create their own dynamics and vested interests. Reversing disruption becomes difficult since it adversely affects the vested interests who get entrenched and resist change. Many of these elements have remained powerful in the post-independence ruling structures and are able to influence the state to either thwart changes or to sabotage them.

The advanced nations have not had to face colonisation in recent times so their experts and intellectuals do not understand what disruption implies in the modern world. Hence there is little theorisation about it except in general terms. Why, for example, have so many former colonies fallen apart so soon after gaining independence as has been the case with many African and Asian countries? Even where the countries have not disintegrated, their people have not been able to manage their affairs either in political or economic terms and continue to teeter on the brink.

The identifiable disruptions in Indian society due to colonisation are:

1. The precipitous loss of value of ideas in society.
2. The absence of a long-term perspective.
3. The emergence of a Western-trained Indian elite that believes in the supremacy of the West, and that Western modernity is the only way to progress. It accepts that whatever is internal is backward and needs to be replaced lock stock and barrel. This elite has developed a compartmentalised thinking which sees few interconnections, or simply accepts connections as established by Western thought.
4. The feudal mindset of the elite Indian ruling class. This has led to the non-identification of the ruling elite with the interest of the citizens because it has become used to the colonial way of doing things, where there was no accountability to the citizen as he was considered secondary.
5. The structure of control of citizens — the almost unchanged bureaucracy, the police and the judiciary.
6. The extraction of the surplus from the people and little investment in their productive activities so that the economic structures become backward. Due to the inadequacy of investments in the citizen's welfare, social conditions have deteriorated leading to evils such as poverty, illiteracy, ill health, poor sanitation. And, finally.
7. The loss of dynamism in society due to the above-mentioned features.

It is argued in this book that the social dynamics of India in the post-independence period continue to be determined by these disruptions, which are still playing themselves out. And that this is because of:

- the structures that got created, and
- the loss of dynamism in society.

Examples abound from the mundane to the profound. For instance, in advertising Western faces, looks and locales are increasingly used. For the elite, success has meant going West, and this has filtered downwards to all sections. The best go there and others aspire to go there somehow, including as illegal immigrants.

Even the notion of beauty in contests is Western, and we have blindly copied catwalks and introduced cheer girls in our sports events. The blame for much of this has to be borne by Indians and not the former rulers. As Tolstoy said in his *Letters* (Gandhi, 2006), it is the Indians that allowed the British to rule over them and not that the British defeated them, so they have to accept the blame for it. Similarly, if we have not understood the disruptions and have not been able to overcome them, the blame rests squarely on our shoulders and our continuing limitations of perspective.

India is not the only disrupted society in the world. All the former colonies of Western powers have had to face disruption. South Africa is another important example of the disruption of a society because of colonial rule. Its disruption was even more severe, but it gained freedom thanks to its tall leaders — Mandela, Desmond Tutu and so on. The democratisation of South Africa's national struggle was deeper than was the case in India. There was no elite black group that had been co-opted by the whites, and which took the reins of power from them; instead, the leadership emerged from the common black people.

But, they did not have an independent, indigenous path of development which they could pursue after independence so they had to depend on the path of Western modernity. Perhaps the ideal of the struggling blacks was to become materially prosperous like the whites. Perhaps in trying to emulate the whites, the common black people of South Africa could not conceive of the idea of disruptions in their society and think of overcoming them. Ending apartheid through freedom became an end in itself so that the next steps were not thought out. Today, in spite of two decades of freedom from apartheid, conditions there are appalling by most accounts.

Throughout history, conquests have taken place. But in earlier times, the kind of overarching disruption that was brought about in a short time by the Western colonisers was not possible. One exception to this would be when

the whites decimated the Inca, the Maya and the "Red Indians" in the Americas.

In India's case, structures remained decentralised and the means to overwhelm society were limited. In fact, over time, a kind of synthesis emerged as had happened during the long period of Muslim rule / control over much of India. Unlike what happened during the British rule, disruptions were comparatively limited and did not rapidly spread to all parts of the subcontinent; more importantly, a two-way exchange took place resulting in synthesis. The dynamism of Indian society was indeed altered but it did not get totally destroyed.

The notion of disruption in society and the consequent loss of its dynamism are long-term ideas. In any short run analysis these ideas are hardly important since it is theoretically feasible to overcome any deficiencies. It is only in the long-term that the effects of disruption appear to be major rather than minor and the possibilities of reversing disruption appear to be difficult, if not impossible.

4. The Criticality of the Long Run for Analysis

Most important ideas are long run, like, those relating to the environment, nation, morality, democracy, and so on. Out of these, the most critical one for this book is the idea of a collectivity called the nation. For some, even this idea is also of limited value in comparison to internationalism or the idea of the human race as a whole. Without contesting this contention, it may be argued that in the present world conjuncture, when there is a tendency towards atomisation, the idea of the nation is perhaps the most important higher level of collectivity in practical terms, notwithstanding the talk of globalisation and the global village.

As already argued, the time horizon in which any problem is situated is important. For instance, in a short run perspective, the British rule in India may not only be justified but even appreciated for the many things that it gave and that Indians are so used to today — administration, courts, railways, universities, etc. The Indian Prime Minister Manmohan Singh spoke in this vein at Oxford a few years back. It is in the long run that its negative aspects become clear, like how it killed the nation's dynamism and created a disrupted society whose consequences India is still struggling with. In an even longer term perspective, when one compares the colonial rule with the post-independence economic development, its negatives become even clearer.

A similar perspective also applies, say, in the case of the private and the public sectors; the latter serves long-term national goals even if in the short term it appears to be inefficient (Chapter V). Similarly, our view on the

nature of habitats in the country would depend on the time-frame of analysis. Concentrated urbanisation may appear desirable in the short run but decentralised urbanisation would be more desirable in the long-term (Chapter IX). Similar issues arise with regard to the environment. In the short term things will not go out of hand but in the long run, they will, and so society cannot ignore the latter (Chapter X).

The issue of ends and means also relates to society's time horizon. Means seem unimportant when we are in a hurry and wish to achieve goals in the short run. However, since the means used impact peoples' thinking and that, in turn, changes society, the end that one set out to achieve might itself alter. In this sense ends and means, apart from being long-term issues, are also intertwined. For instance, in our urgency to achieve higher economic growth in order to develop, we may adversely affect our environment and worsen poverty, even if incomes do increase. The clean up of the environment required results in expenditures that constitute social waste since the alternative of a different development path exists in which the environment need not have been polluted. Further, because of such expenditure there may be a shortage of resources for poverty removal. Thus, while one goal may be achieved others may fall by the wayside because the means were inappropriate.

The world is organised as nations even though globalisation has blurred some of the boundaries. In spite of globalisation, and the idea of a global village, the spread of MNCs (Multi National Corporations) and their global production structures, increased imports and exports and much more travel by people, the nation state remains the most important entity in the lives of citizens. Even the most powerful MNCs are rooted in a nation state which is their ultimate defender, for instance, when they face problems in another nation state.

Take the case of Enron which found itself in trouble in India in the mid-1990s. It flew in Henry Kissinger for lobbying, and the US government sent its Defence and Energy secretaries to sort matters out with the Indian government (apply pressure). Similarly, in the case of the disputes on, say, patents, it is the US government that takes the Indian government to the World Trade Organisation (WTO) for dispute settlement and not the affected MNC. In the recent case of the ban on import of Chinese toys due to defects, it was the Chinese government that has complained to the WTO and not the affected companies.

Be that as it may, many view the idea of the nation also in the short term and, therefore, adopt a limited approach based on their narrowly-perceived self-interest. This distorts the idea of the nation. Typically, it is the vested interests in society who have such a view of the nation, since they wish to resort to primitive accumulation of capital based on widespread illegality.

They generate large black incomes (Kumar, 1999) by violating the prevalent rules of social functioning, whatever they may be, good or bad.

Even if the rules of social functioning are imperfect, they need to be reformed rather than violated. The very notions of society and nation are based on the idea of collectivity and rule-based functioning. But those in power, who are supposed to oversee the implementation of the rules, are the ones who often participate in their subversion for their short term gains (*see* Chapter VIII). This is akin to jungle raj with its notion of "might is right". Consequently, the society and the nation weaken and their effectiveness declines, which is also detrimental to the interest of the very elite which resorts to the subversion. In effect, while serving their narrow interests, these sectional groups harm their own long run interests. The nation weakens in comparison to other nations which, despite their imperfections, continue to work for the collective benefit of their citizens.

The idea of the nation works when its citizens are committed to the collectivity but is weakened when they get alienated from society. To the vested interests working for their narrow self-interest, this does not matter. They do not see that they perhaps lose the most in the long run as the idea of the nation weakens, because they have the most to gain from it.

Persistence of grinding poverty does not bother the ruling elite since they do not associate its prevalence with their actions, such as grabbing the nation's resources for themselves, and their pursuit of short run legal and illegal monopoly profits both of which result in the further marginalisation of the marginals. The poor become the residual in the system, getting crumbs from the table if they are lucky. Widening disparities in this narrow view are immaterial. Also, it seems not to matter to the elites that the commitment of those at the margins to the idea of the nation has declined.

In brief, a proper understanding of the link between development, democracy and environment is possible only in a long-term perspective. This volume attempts precisely that.

5. The Role of Leadership

Leadership plays a critical role in a nation's development — politically, socially and economically. As such, any failure of a country is the failure of its leadership. It is accepted that India evolved a dedicated and talented leadership during the national movement which took over the reins after independence. India also became a model for many other newly independent countries in the 1950s. With such impeccable credentials the moot question is why has the quality of leadership declined so rapidly after independence? Each successive generation of leaders is seen to be worse than the previous one. (*see* Chapter IV, Section 2)

Indian leadership has been a product of a disrupted society. Most of it either emerged from a feudal background or from the elite groups in society. By and large, it had a limited understanding of democratic functioning not only because of the background of the leaders but also because of their links with vested interests. No wonder, then, that in the period immediately preceding independence, the leadership while using Gandhi for mass mobilisation actually marginalised him and the people at large. The contrast between the Nehru and the Gandhi families is stark. Even though the contribution of Gandhi to the nation may be considered as being far greater than that of Nehru, none from his family got into positions of authority while the members of the Nehru-Indira Gandhi clan have all ascended to power and acted as the first family of the country. The leadership's desire to rule rather than serve has become accentuated in the post-independence period because of the weakening of the influence of the national movement and its growing linkages with the vested interests in society.

The short sightedness of the post-independence leadership resulted in its inability to recognise and foster originality and creativity. Whenever a new idea is suggested, the leadership has asked where else has this idea been tried. The implication is that, little that is new can be attempted in India. Further, the country's leadership has been ever ready to copy from the West. This limits the trying out of new ideas based on the Indian needs, except perhaps oddities like the "Jugad" — a diesel engine attached to a chassis and used for transportation. The "Jugad" has few safety features and it is highly polluting and inefficient. It is not even a new idea since such vehicles probably plied in the advanced nations more than a hundred years back. The country's leadership has mostly surrounded itself with people who are good at recycling, appropriating or adapting knowledge from outside, mostly from the West, and who marginalise original thinking in India. It signals that success is possible through sycophancy and networking and not if one is an original thinker — a sure way of killing dynamism in society.

The failure of the national leadership has had its resonance in leadership all the way down and into the various institutions of society such as the universities or the municipalities, or even in the health sector. Consequently, institutional leaders are typically seen serving the interests of their masters who put them in those positions rather than the interest of the institutions they are serving. The result is that often mindless activities are carried out with little regard to their overall social usefulness leading to growing waste in society.

For instance, in elite universities and institutions, one can see perfectly good floors and furniture that can last for many more decades, or even centuries, demolished and replaced. The VC's (Vice Chancellor's) offices and general toilets are repeatedly modernised because there is money which

would otherwise lapse, or because each new incumbent wants to leave a mark on the institution. It does not occur to these academics that a large number of children do not have proper classrooms, or that fifty per cent of the population does not have access to toilets, or even that public toilets are few and far between, and so on. A national perspective on the use of resources is missing.

In Delhi, one sees electric poles repeatedly replaced rather than reused with modifications, or perfectly usable kerbstones replaced at massive expense when a large number of roads are in a pathetic condition all over the country — and non-existent in many rural areas. Further, while a bulk of the population has little access to health facilities, fancy hospital facilities have come up which recommend needless tests to make money. Some of these hospitals are supposed to give free services to the poor because they were allotted cheap or free land but they resist this in every possible way and thwart policy.

In brief, leadership has to bear much of the blame for its own decline since it has had a limited social perspective and a largely anti-intellectual bias. This may appear paradoxical since many of the leaders of the national movement were not well educated or that better educated people have come into politics since.

The issue is not one of the level of education but of the lack of the ability to question and to think independently. When vested interests have not been able to get their way legally due to the systems put in place, they manipulate the leadership to violate rules and create space for themselves through the black economy. Even the so called "honest leaders" of today are only financially honest but often not so intellectually. Such leaders have allowed corruption to flourish by looking the other way in the interest of continuing in power — a perfect example of means changing the ends themselves.

A leader becomes a leader if she / he is able to influence others. It requires the ability to use power and / or persuasion with others. A leader can be either transformative, like Gandhi was who tried to change the direction of social thinking, or a dictator who uses force to get her or his way by subjugating the citizens. These two are the simple and easy to understand cases, but they are less common.

The more complex cases are those of leaders of the "populist" kind, catering only to established interests. They mostly promote the hegemonic prejudices (of the ruling elite), such as the furthering of the idea by the nationalist leaders that the nation has to go for Western modernity. Leaders may also promote the ruling prejudices of a community, such as those of the majority community. In the Indian context, for example, this is the case with the leadership of the hindutva forces or, equally, the leadership of the special interest groups. This is also the case with much of the Muslim or the Sikh or

the Dalit leadership of today. Presently, leadership in India is increasingly regional or communal and so on but hardly national, and this dents the idea of the nation.

6. Model of Development

Development has often been uneven the world over, and it has been thus in India as well. The national movement and independence created a strong national spirit which led people to sacrifice for a larger cause believing that everyone would gain in the long run. Why, then, did this spirit dissipate so quickly after independence?

The idea of uneven or narrowly focused development has been based on the underlying idea of a common good. Sacrifice is supposed to be temporary and it is argued that ultimately everyone, including those who lose out in the beginning, benefits. However, that may only be the case if society maintains a wider national or long-term perspective but not if the framework is or becomes sectional.

It is possible that those who benefit in the beginning later turn around and demand more concessions since they can claim that they are the drivers of growth of the economy. They can also migrate (or threaten to do so) to other parts of the world for improving their prospects. Thus, they can drive a permanent wedge between themselves and those who had sacrificed and consequently lag behind. Two separate circles of development emerge — one advanced and the other backward (*see* Chapter X, Section 4.2). In the circumstances, even if there is a trickle down, the chasm between the two circles only widens and leads to despondency amongst those who lag behind. The process turns the marginals into residuals.

Those in the advanced sectors absorb a large part of the resources of the nation leaving little for the marginal. The growing divide becomes a cause of resentment for the latter who see themselves as continuously sacrificing for others. The beneficiaries of the process see it as their right that they should keep getting more. India has witnessed this process of dichotomous development for the last six decades and has come to the point where the marginals are no more willing to continue to sacrifice. Consequently, movements have come up like the ones against displacement.

During the process of development, large scale projects have come up which have displaced large populations that have then been forced to migrate to urban areas as slum dwellers, living in poor conditions or even doing menial and unskilled jobs in the projects that were set up on the very land they were displaced from. The displaced have not only lost their land but also their way of life. With little idea of what financial saving for the

future meant, they have lost a large part, if not all, of the compensation they received for their land due to conspicuous consumption.

No strategy of uneven development (as the one above) can be successful without a holistic perspective of a nation and a spirit of a collective where everyone sacrifices for the larger good. With growing atomisation and self-centeredness amongst the ruling elites, neither of these two requirements are met so that this strategy is doomed to failure. Unfortunately, in the present phase of globalisation based on the notion of marketisation which is leading to growing atomisation of individuals, the situation is worsening.

To illustrate, consider our current view of the brain drain and the role of education in society. India has got used to exporting its (best) talent and even encourages this, say, through demanding more H1B visas from the USA. This is a liberal view, which allows freedom to the young to go where they please. However, there is also a sense of helplessness that India cannot give these youngsters the opportunities they need because of which they have to go elsewhere. The nation and its young have come to accept that the West is the symbol of modernity and progress and so that there is nothing wrong with going there. That this is a sign of helplessness and results in a decline in society's dynamism seems to be of little concern to the country's elite who have accepted subordination to the West and do not mind serving their own perceived interests, howsoever narrow.

In brief, the rapid decline of the national spirit after independence is in no small measure due to the self-serving actions of the ruling elite. Alienation set in rapidly as this group grabbed most of the gains from development leaving others only marginally better than they earlier were. The lesson to the rest was to follow in the footsteps of the elite, leading to a decline of the national spirit and the denting of the idea of the nation as a collectivity for the benefit of all.

Does human progress and society's concept of development have a civilisational aspect? Becoming civilised usually stands for being more considerate towards others and being less self-centred and more humane. It ought to imply taking care of the weakest in society — the old, the poor, the children and the women. How much a society takes care of its weakest can be considered to be a measure of how civilised it is.

In contrast to being civilised, there can be a "jungle rule" based on "might is right", harshness and lack of humaneness. In such a society, the weak are the most vulnerable. Further, human progress or becoming more civilised, has implied that the same rule of law applies to everyone and that the powerful are not above or beyond the law. It also requires that the laws are not biased against the weak. In other words, becoming more civilised should mean that the powerful in society increasingly accept the same restraints on their actions as those applicable to the weak.

If Gandhi's formulation, "last person first", becomes a basis of policy it would be both civilisational and democratising. It implies that the ruling elite must voluntarily consider the interest of the last person of society before looking to its own interest. This sounds like utopia and something unachievable in today's world. But then many things that were earlier considered unfeasible have come to pass in the history of societies. Further, utopias give a sense of direction to society. When adopted by a society as a goal a utopia becomes like the gene which determines the future trajectory of that society.

The growing marketisation and atomisation so visible globally in the last century, and in India in the post-independence decades, stand in opposition to the Gandhian vision. Markets cater to those with purchasing power and not the marginals (*see* Chapter VII, Section 3). Caring for the weak has been progressively relegated to the background and they have to fend for themselves in the market. No wonder, increasingly in India, the condition of the poor, the women, the children and the old has increasingly deteriorated in India despite the apparent progress made by them.

Amongst the various aspects of progress in post-independence India, the most important has been the growing consciousness of democracy amongst the marginals due to the power of the vote. This is a result of political change and not due to the model of development which has been followed. The model of development pursued can take credit for greater gender justice, education for a majority of the children, some social security for the elderly, progress by the scheduled castes, scheduled tribes, and Muslims and some reduction in poverty. On the flip side, there is the growing commodification of the woman's body, adverse sex ratio due to female foeticide, the double burden on poor women who have to not only take care of the home but also work outside, the concentration of poverty amongst female-headed households, and so on. The care of the children and the elderly in society has deteriorated with growing alienation, loneliness and rising tensions in families and rapid changes in the social structures. The other marginalised sections listed above continue to face daunting economic challenges.

7. Conclusion

The above is a rather long list of preliminaries for a book on the Indian economy. These may be summarised as:

1. the need for a holistic perspective bringing in historical and political influences into economic development,
2. the identification of the appropriate starting point for the historical analysis and the phases of an economy,

3. the criticality of the long run in defining important social concerns,
4. the choice of a model for development that has resulted in dichotomous growth and alienation of the majority of Indians,
5. the need to view progress as a social construct that can only be understood in the long run and that must contend with the limits imposed on it by nature,
6. the changing notions of freedom,
7. the idea of disruption of society and its consequent loss of dynamism in solving its own problems and, finally,
8. the rapid decline of leadership.

It is hard to take into account all this in any single book, even one as voluminous as this one. It is also difficult to work with a new framework since one unwittingly tends to slip into old patterns of thought unconsciously from time to time.

In fact, at one sociology seminar a few years back, I tried to make some of the methodological points I have presented above. The only reaction I got was what was new about what I was saying. I had to reiterate that while what I had said might have been obvious, it was being practised more in default and we needed to ask ourselves why that was so. We simply wish away critical things after paying lip service to them.

Finally, this book is not only about the need for a wider view but one that would hopefully place the marginals of our society in the centre of the analysis as people who matter. It is obvious but is followed mostly in the breach. Another attempt at making the analysis holistic would be to bring the black economy integrally into the analysis. This is the missing dimension of most analyses relating to India, even though it is perhaps the key to understanding the Indian dynamics and why the marginals get further marginalised. The spaces opened by the current global crisis for alternative thinking also need to be kept in mind while interpreting the contents of this book.

What a country or a society does depend on is what it believes in, and what its people think of. This is determined to a large extent by its history which, like the genes of a biological organism, determines the course of future evolution. If history has a role in determining the future, the disruption created by the colonial masters in the way we think about ourselves and our nation has been critical in shaping our current context. That is why the content of education, economic policies and politics is critical, as will be argued in this book.

Chapter I

Introduction

1. The Backdrop

The Indian economy has done well after emerging from colonial rule (*see* Table 1.1 overleaf). However, many problems and drawbacks persist. Social conditions in the country are some of the worst even in comparison with those of the developing world (*see* Table 1.2).

Table 1.1 shows that economic and social parameters have improved greatly in the post-independence period as compared to the pre-independence period. However, the data in Table 1.2 indicates that the country still has a long way to go and, as far as the poor are concerned, they have not fared much better in spite of sixty-five years of independence. The crisis in their lives persists, and it threatened to get worse as yet another crisis hit the global economy since 2006-07.

The year 2012 proved to be a difficult one for India, with the decline in the rates of growth of the economy, industry and exports. Major components of the services sector also showed signs of sluggish growth. Consequently, the current account deficit was around 4% of GDP, fiscal deficit was approximately 6% of GDP and inflation hovered around 10%. The savings and investment rates came down from their peaks of 2006-07. The government went into a state of denial arguing that the economy was bottoming out and would start doing better in the coming fiscal. The slowing economy led to problems for the creation of new jobs since some of the export sectors were labour intensive — such as textiles, leather goods, BPO and call centres. Agriculture was the only bright spot with record output in 2011-12.

The rate of inflation in food items which was hovering at around 20% in 2010-11 came down to about 10%. Since these changes were cumulative, they put pressure on the real wages of workers, especially in the unorganised sectors because food is still dominant in their consumption bundle. The wholesale price index does not contain the services prices and, therefore, does not represent the true inflation rate. Since prices of some of the services have risen sharply, the public feels that the rate of inflation is high while the government argues that the rate of inflation has come down.

Table 1.1

Selected Indicators for India from 1901 to 2001

	1901	*1911*	*1921*	*1931*	*1941*	*1951*	*1961*	*1971*	*1981*	*1991*	*2001*
Growth Rate of Population		6.23	0.86	10.63	15.02		21.63	24.82	24.64	23.85	21.35
Growth Rate of National Income		23.35	-8.79	29.31	8.46		46.73	43.75	35.39	73.37	73.0
Growth Rate of Per Capita Income		12.98	-1.37	6.57	-5.41		19.82	12.54	7.27	36.32	40.77
Share of Agriculture	0.73	0.69	0.68	0.59	0.57	0.56	0.52	0.46	0.40	0.33	0.26
Share of Manufacturing	0.11	0.12	0.14	0.16	0.16	0.15	0.19	0.22	0.24	0.28	0.25
Birth Rate	47.3	46.3	46.6	43.1	41.9	39.9	41.7	36.9	33.9	29.5	25.8
Death Rate	43.7	49.8	37.3	31.5	25.2	27.4	22.8	14.9	12.5	9.8	8.5
Life Expectancy at Birth	23	20.2	26.7	31.7	32.1	32.1	41.3	45.6	50.4	58.7	65.4
Literacy Rate / Students % (*)	2	2.9	3.6	3.7	5.4	18.3	28.3	34.4	43.6	52.2	65.4
Railway Passengers (million)	183.1	366.6	534.6	505	651.6	1,284	1,594	2,431	3,613	3,858	4,833
Net Availability of Food (t/yr)	0.17	0.18	0.18	0.17	0.15	0.15	0.17	0.17	0.17	0.19	0.15
Share of Urban Population %	10	9.4	10.2	11.1	12.8	16.1		20		27	27.6
Poverty Ratio (**)								54.9	44.5	36	26.1

[Sources: This table is based on Kumar, A. (1997), "Freedom from the Perspective of the Poor", *Vidyajyoti.* Vol. 61, No. 9, pp. 617-629, *Economic Survey* 1997 and 2003 for data from 1951 to 2001 and Kumar, R. (1984) for data from 1901 to 1941.]

Notes:

1. 1901 to 1941 is NDP at 1946-47 prices, 1951 to 1991 is GDP at factor cost at 1980-81 prices and for 2001 at 1993-94 prices.
2. Data up to 1941 and after are not directly comparable due to partition.

* Literacy up to 1941 is students as percent of population.

** Poverty ratio for 1971 refers to 1973-74, for 1981 to 1983, for 1991 to 1993-94 and 2001 to 1999-2000.

Table 1.2
India's Situation in the World with Regard to Some Developmental Variables in 2002

S.No.	Category	Value	No. of Countries Performing Worse
1.	Human Development Index Rank	127	50
2.	Infant Mortality (per 1,000 live births)	67	45
3.	Per capita income in current $	487	42
4.	Adult Literacy (% age 15 and above)	61.3	21
5.	% Population living at below $1 per day	34.7	20
6.	% Population living at below $2 per day	79.9	13
7.	Children reaching grade 5 (of % in grade 1)	59	10
8.	% population with access to sanitation	28	8
9.	% Infants with low birth weight	30	3

(Source: UNDP 2004.)

The stock markets, after reaching a historic high in January 2008, fell by 67 per cent before recovering in 2009. Then they again went into turmoil from the beginning of 2011. The real estate markets showed a similar trend. The decline in 2008 occurred despite the huge interventions by the government and the Reserve Bank — the infusion of massive liquidity, a huge supplementary budget and the announcement of the first package of fiscal stimulus, soon to be followed by a second one (for an analysis of the global crisis, *see* Kumar 2009c). Fiscal responsibility and budget management (FRBM) were given a quiet burial. The stimulus started having its impact towards the latter part of 2009, but the situation again began deteriorating.

Since 2007, the economy began displaying instability. The reasons were both internal and external. The euro-zone crisis became full blown from 2011, resulting in global uncertainty. The "green shoots" in US in 2010 turned out to be temporary with the economy remaining sluggish and rate of unemployment remaining stubbornly high since 2007-08. The tsunami and the Fukushima nuclear crisis led to a slow down in Japanese economy. Due to all these factors, both Chinese and Indian economies also started to slow down as their exports rate of growth came down. At the time of writing the world economy had yet to come out of its crisis which started in late 2007. Some analysts feared that the world economy was headed for a double dip recession as in mid-1930s. Some argued that the various governments started withdrawing their stimulus packages put in place in 2008 too early.

Since 1991, India's growth became linked to the global economy far more than earlier. Local markets have been de-emphasised to a large extent. The rise in disparity in the economy narrowed the impulses for growth and that is why any global instability also impacts the Indian growth scenario. No wonder global ups and downs are mirrored in the Indian economic situation. As such, the economy has not actually reached a new high growth path as the government had been asserting all along; but these assertions are perhaps the compulsions of power.

The internal reasons for the slow down since 2011 relate to the paralysis of policy and a declining investment climate in the country. The national focus on big scams unearthed one after the other from early 2010 — Adarsh Society, Commonwealth Games, 2G, Bellary, ISRO S-Band, coal block allotment and the Army chief's accusations of bribery — led to paralysis in the government. Investments in India since 1991 have been strongly based on crony capitalism with business and politicians teaming up to loot the exchequer. This has come into question as the scams were exposed and as no new transparent model emerged so investments slowed down. This coupled with growing disparities and rising instability led to deterioration in the investment climate in India.

For the world economy, 2008 began with all round predictions of reduced but positive growth. The US economy was expected to continue to grow even if anaemically. Policy makers were in a state of denial till the collapse of the stock markets in mid-September 2008 with the collapse of Lehman Brothers and near collapse of AIG. These were entities that were supposed to be "too big to fail" but, shockingly, they failed. This led to rising unemployment and homelessness due to foreclosures and a deepening recession in the USA. The trend was no different in the other major world economies. Fears of deflation in the world economy were real with prices softening and this could have headed the world towards a depression.

The US financial system is no more what it was in 2007. Major entities such as the housing mortgage giants, Freddie Mac and Fannie Mae, the insurance giant, AIG, the largest US bank, Citibank, the giant investment banks, Goldman Sachs, Merrill Lynch, Lehman Brothers and Bear Sterns had collapsed or were near collapse. They had to be bailed out by the government or they would have gone bankrupt. Given the inter-linkages, the effect on the real economy was sharp. The rest of the world was also hit hard by these events (Kumar, 2009c). The government-announced interventions in most countries were a case of "too little too late", and so were unable to prevent the collapse of the financial sector; the real economy also did not respond till later.

In fact, as became clear later, most policy makers themselves did not fully understand what was going on. Alan Greenspan (the previous Chief of

Federal Reserve) admitted this. The demand for proper regulation of the complex financial system grew, and so the powers of the central banks to regulate increased. As a result, more policy interventions in markets became increasingly acceptable. The fragility of the financial system grew untenable and requires rearchitecturing.

A long-term view would have to be taken since it became clear that steady returns are desirable as opposed to short-term profits that lead to eventual collapse. All in all, we are in for a long haul and since 2010 we have entered a world substantially different from the one we ended with in 2007. The world economy and India face a systemic crisis and not only in the financial system. Thus, solutions also have to be based on a systemic change (Kumar, 2009c).

In short, to work out systemic solutions we need to first understand how such a situation arose where both the world and India had to face the worst economic crisis in several generations and, possibly, since 1934. This book attempts to offer an understanding of the Indian situation on the basis of what has been going on in India since independence.

In building such an understanding, we need to be clear about a few methodological issues of economics and these are presented below. For instance, the link between economic growth and progress in society must be understood. Can a society simply copy what another has done or are there space-time specificities in the situations of different countries? And, more specifically, whether India can do what China did in the last three decades? Further, one has to be clear about the reliability of the data on the basis of which analysis is carried out.

2. Data Related

Any economy, and especially a complex one like India, requires for its description or analysis an enormous amount of data. This is both because a large number of variables are relevant, and also because changes in the data have been rapid and need to be understood. As such, two aspects become important, what data to choose for analysis and, the reliability of the available data.

Carr (1964) has argued that in presenting history, we choose certain facts and ignore others. In other words, there is both a selectivity in the analysis and the framework of the analyst determines what is important and what is not. While in the case of historical discourse one has to work with limited data, in economics, where large amounts of data is available, the choice becomes critical. Economic analysis limits data by using abstraction and working with stylised facts so that certain details are often ignored.

The theoretical framework of the analyst determines which stylised economic facts are chosen (and which are ignored). Whether or not a theoretical framework is explicitly stated, it underlies any good work. In this book, even though a lot of facts are presented, they are only a small subset of the totality of the data available, and reflect this author's theorisation and interpretation. It is not possible to use each and every available fact and perhaps that is not even necessary for our purpose here.

The data base of the Indian economy is one of the best in the world, and possibly the best in the developing world. There are statistical departments that generate data, and they have developed sophisticated methodologies to work out estimates for the different variables (*see* NAS: Sources and Methods, 1980 to 2007). However, there are many lacunae both in the collection of data and in the methodology used to make estimates for the variables. These may be listed as:

- definitional aspects,
- methodological problems, and
- related to the existence of a substantial black economy.

In social sciences there is a problem not faced in hard sciences or in mathematics. Over time a given variable may change in character so that what it once was and what it may be at a later point of time would differ substantially, but they are called the same. Take the case of what is called money. At the time of India's independence the use of cheques was negligible while today there is also plastic money and electronic money. Similarly car of today is far more sophisticated than that of sixty years ago — for instance, it has far more moving parts and far better fuel efficiency. How can the products be seen to be the same, and compared with each other when we discuss, say, the question of growth in the car industry by comparing the number of cars produced at two rather distant points of time?

Similarly, in defining the net output of the economy depreciation has to be applied, and since this is ill-defined there is an ambiguity in defining the net output. It is also argued in Kumar (2006d) that the treatment of unpaid work in defining national income, or when activities are akin to "digging holes and filling them", or when the environment is adversely affected, there is an overestimation. These factors which are currently not taken into account need to be taken care of in defining and measuring national income.

Further, in the case of the unorganised sectors in India, data is rudimentary and, therefore, major errors creep in, both because of the shortage of data and the method used (*see* Kumar, 2006d). Various benchmark surveys are used and then indices and ratios are applied to move the values from the

initial point of time to the later one. It has been pointed out that this introduces errors in a fast changing economic situation.

In some cases estimates of certain components of variables like savings and investment, are residuals. They are the difference between the aggregate value of the variable and the value of its components that can be estimated. However, if there are errors in the estimates of the main components, then the residuals also contain errors. Further, what the residuals represent may not be well-defined. For instance, in the case of savings, the contribution of the household sector is the difference between, on the one hand, the aggregate savings of the economy and, on the other hand, the savings of the corporate sector and the public sector. Since the estimates of the aggregate and the corporate sector are both in error due to the existence of the black economy, the residual is also likely to be in error. Further, errors in, say, the corporate sector's contribution could show up as savings of the residual sector, the household sector, so a definitional problem also arises.

Availability of data on different aspects of society has improved considerably over time, but its reliability has often been questioned. For instance, this is suspected in the case of data on literacy, or the land holding pattern, or unemployment. Reports suggest that literacy and school enrollment data is often manipulated. Muster rolls on employment are fudged not just for the unorganised sectors but also for the organised sectors. The Satyam Scam (*see also* Chapter VIII) has revealed that while the declared employment in the company was 53,000 as of January 2009, in reality as many as 13,000 fictitious workers could have been on the rolls. Finally, while land ceilings exist, those with much larger holdings hide the true ownership of land through benami holdings and manipulations, and this distorts the data on the land holding pattern.

In India, surveys are often in error since people do not report correctly (Kumar, 1999). Whether or not this is a national characteristic of Indians is hard to say. In the case of some other nations, surveys seem to be quite accurate since people believe it is their duty to cooperate. In contrast, in India there is perhaps a fear of officialdom for historical reasons and, therefore, people do not reveal facts correctly to an unknown person. Even private sector surveys have been known to have large errors. NIPFP (1985) points to the large error in the NCAER survey of incomes and savings. This is in sharp contrast to people's behaviour, say, while travelling together in a train, when they exchange information on each other's family, income, caste and a host of personal details. But the issue is whether they exaggerate or reveal accurate information.

Often, the personnel collecting the data lack motivation and see it as a chore to be gotten over with. For them, its accuracy is not important. That it may have a national purpose is hardly of concern to them. There are reports

that when investigators go to a village to get data they may rely largely on the local officials (the Patwaris) and simply note down their impressions. There are also reports of data gatherers simply updating the previous period's data by multiplying it by some arbitrary per cent. Thus, data may suffer a degree of randomness which the analyst is not aware of and cannot take into account in the analysis.

For the reasons discussed above, the rate of growth of the economy cannot be very accurate. The economy consists of several sectors, and there are large and small errors in estimating each of them. There is no reason to believe that they are in opposite directions or even that they are of just the correct magnitude so as to somehow mutually cancel out. In analysing data, measurement errors of a data point are shown as error bars and they are treated as additive so that the error bars of the final result are larger indicating its higher uncertainty. Hence, the rate of growth of the economy calculated by adding the individual sector's growth rates is likely to have larger error than its individual components.

In contrast to this possibility, there is much quibbling even over the decimal points amongst groups predicting growth of the economy. This is statistically meaningless. But it is important for the policy makers and for the markets since they depend on the state of confidence in the economy. Confidently announcing a high number, even if that is methodologically incorrect — since a fairly wide range should be announced — is useful for improving expectations about the economy and creating an environment of positivity and thereby reaping political or economic benefits.

Since 1991, when the NEP were launched in the face of resistance, claiming success for these policies has been important. The government has indulged in creative use of data to show the economy in a better light. Kumar (1994b) has pointed to this in the context of the budgetary data, which used to be one of the most reliable data. It was shown that the various budget deficits in the proposed budgets have been off by very large percentage compared to the values ultimately achieved. After 1991, these errors in prediction became much larger than in the preceding five years. Governments have been known to announce schemes with fanfare, committing large expenditures for them, but allocations remain unspent at the end of the year. Often Plan and Capital expenditures have been found to be inflated to present the budget in a better light. All of these represent dressing up of data.

However, the biggest lacuna regarding data is due to the growing black economy (Kumar, 1999). It is pointed out that this distorts the data not only of the total economy — that is, of the white and the black economy together — but it also affects the quality of the data of the white economy. It has been pointed out that all the macro variables of the economy are affected. If they were all impacted by a fixed per cent in a given direction (up or down), the

data could have been adjusted by that much per cent to get the correct results. Even if the exact per cent correction required was not known, the result would just be a proxy for the actual result so even the correction would not be needed. However, it can be shown that different variables are not only affected by different percentages but also in different directions so that the black economy cannot be ignored (Kumar, 2005b). Thus, while the savings rate is increased by the existence of the black economy, the investments ratio is lowered by it. In other words, in the official data the true savings of the economy are underestimated while the actual investments are overestimated.

Further, while some sectors, like, agriculture, are hardly affected by the black economy, others, such as the service sector, are severely impacted (Kumar, 1999). In the case of the unorganised sectors, while a large part of the incomes lie below the taxable limit, those that do not, evade substantial amount of taxes. As pointed out above, the savings of the household sector which have dominated the savings of the economy are in error given their residual character. The black economy leads to errors in both the overall savings and those in the organised sector leading to the mis-estimation of the household savings.

The black economy involves making extra profits off the balance sheet resulting in a higher share of profit in national income (Kumar 1999). It also affects the input output ratios in the economy since output is shown to be less while costs are shown to be higher. Employment and wages in the official data are also shown to be higher than actual. Velocity of circulation of money turns out to be higher than what is officially stated.

In brief, the data of the Indian economy, even though quite extensive, is flawed for the many reasons discussed above. This vitiates analysis. Hence, it needs to be supplemented with other forms of evidence. It is important to remember that in statistics, errors add up and not cancel out. Since the errors can be fairly large, broad indicative ranges should be used rather than thinking of data as accurate up to the last decimal point.

3. Is Rate of Growth a Good Measure of Society's Progress?

Rapid rate of economic growth in the current context is also accompanied by a tremendous waste of resources. So, in what sense, does this constitute progress? In a similar vein, we can ask if having more doctors per thousand of population is a sign of more disease or that of a healthy society? Similarly, when growth causes large scale destruction of the environment of the nation and the decimation and extinction of species, it is not clear that higher economic growth is a sign of progress. Further, if income distribution gets more

and more skewed so that the benefits of growth mostly accrue to a few while the costs fall on the majority, it is not clear if it can be characterised as progress.

Further, if there is rapid growth for a short period of time followed by a rapid decline, it is not clear that this would constitute progress. For instance, in Sri Lanka the introduction of new economic policies in 1977 led to an acceleration of the economy's rate of growth but it was also accompanied by growing disparities which became an important cause of the breakout of the civil war in 1983 and a decline in the rate of growth thereafter (Mariadas, 2007). Can we truly say that Sri Lankan society progressed in the period of fast growth between 1977 and 1983? Similarly, the rapid growth in the world economy in the two decades preceding 2006-07, based on asset bubbles, followed by a near collapse and global crisis can hardly constitute progress.

In brief, fast temporary growth in an economy accompanied by a sharp rise in inequalities and / or social tensions and / or environmental destruction followed by a slump in the economy leads one to doubt whether this is synonymous with progress.

China has sustained a high rate of growth for the last three decades and raised the standard of living of a vast bulk of its population. However, it has paid a high cost in terms of growing disparities, rising social tensions and destruction of its environment. China's lack of democracy has, perhaps, allowed it to sustain this mix of negatives accompanying its rapid growth but one also has to question the nature of the progress of Chinese society, where its heritage is rapidly dissipating in the headlong rush for modernity. With the global economic crisis, pressures have developed in Chinese society and it remains to be seen how it weathers them.

Can India imitate China as some may wish it to, assuming that this kind of growth is good for society? Clearly not, given that the two countries have different social and political systems. A democratic government cannot cope with the kind of social pressures that dichotomous growth generates. One need only recall the NDA's loss of power in 2004 in spite of the "India shining" campaign based on the rapid growth of India's economy that year. Even in the first five years of UPA rule, the ruling party lost many state and local elections in spite of the rapid growth achieved. Its 2009 victory in the national elections can be attributed largely to its attempts to correct the growth in disparities in the earlier years by announcing pro-poor schemes like the Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS), loan waiver, and increased outlay for mid-day meal scheme for children.

Even if growth represents progress, what is the long run constraint to growth for an economy? In the literature, the discussion is centred around, food / agriculture, foreign exchange, shortage of inputs, technology or

capacity constraint. But these can only be temporary or short run. A dynamic economy should be able to adjust and take care of them. If a constraint appears, society should be able to take remedial actions. If, say, there is food shortage and prices rise, resources can be diverted to stepping up food production, as happened during the Green Revolution in India in the late 1960s and 1970s. This constraint could also have been taken care of through imports but that would have required foreign exchange. If the latter is in short supply, the food constraint would show up as a foreign exchange constraint. This would require appropriate measures on the trade front. That would bring in the questions of the nature of industrialisation and trade policies. Given this shifting nature of the constraints, one can think of progress without growth so that the link between growth and progress becomes tenuous. Further, it may be argued that none of the constraints mentioned above are the real constraints to long-term economic growth or its link with social progress.

The real constraint for the economy and the disjuncture between social progress and economic growth comes from the perspective adopted by the nation. That is a long run factor and because of this the short run constraints manifest themselves either one after the other, or continue to be constraints over long periods of time without being overcome.

If the perspective is inappropriate, society is unable to resolve its problems and short term constraints manifest themselves repeatedly. For instance, Japan and South Korea, with little by way of natural resources have been models of economic growth in the post Second World War era. They have used their human resources in such a way that they could overcome their other constraints and also provide better linkage between economic growth and social welfare. Finally, if the perspective of a nation is mostly short run, then it is unable to anticipate problems and take care of them and this slows down not only economic growth but social progress.

4. Modelling, Causal and Dependent Variables

An important methodological point about economic analysis is that all variables are not at the same level of importance. Some variables come prior to others. If these variables are not set right by policy, other variables do not achieve their desired values and policies pertaining to them fail. Unfortunately, this point is often ignored in analysis and all variables are treated to be at the same level of importance.

Further, there are causal and dependent variables. Action on causal variables leads to changes in the dependent ones. Thus, causal variables come prior to others. If they are not correctly structured, contradictions arise between policies. For instance, unemployment and poverty are outcomes of

other processes going on in the economy. Investments, technical change, taxation and government expenditures impact not only these two variables but others.

If fiscal monetary policies are not right, the backward area development policies may not work. Or, if industrial policies are not set right then packages for, say, plastics or automobiles may not achieve what they are supposed to. Often, analysis of a policy cannot be independent of other policies and a holistic perspective may be required.

Finally, there may be cross-linkages between both the causal and the dependent variables. For instance, taxation has an impact on investments. Similarly, government expenditures and investments may be interlinked. Amongst the dependent variables, poverty, income generation and unemployment have linkages amongst themselves. In a sense, in economics everything is linked to everything else in some form or the other. Thus, identifying prior variables or causal ones becomes tricky. Depending on the problem at hand, whether a variable is dependent or independent may change. For this reason, one has to have as holistic a perspective as possible and that, in turn, requires a proper theoretical understanding of the issues involved.

Does the stress on the need for a holistic view of the economy mean having an econometric macro model, as some analysts suggest? They use such models to make projections. While it is true that any projection a short period ahead has a good chance of being not too far wrong, the real test lies in how much into the future can accurate projections be made.

The big econometric models have a lot of variables and may claim to be holistic. However, that is not quite correct. The reason is that the parameters of the models are estimated from past data. This is not a good procedure because the various parameters are themselves changing over time so, if one estimates them over short periods of time, they might work but then they cannot be used to project much into the future. And the use of the short period limits the degree of reliability of the analysis. Thus, the use of the long period in such models is vitiated by the changing parameters and difficulty in their estimation while the short period analysis suffers from reliability of estimation, especially, when there are many parameters, so that either way there are problems. Finally, the use of these models is nothing more than projecting the immediate past into the immediate future so that the long run is often completely missing.

Procedurally, the crux of the problem is that the future is different from the past (Keynes, 1935). It goes without saying that in a dynamic system, the past and the future ought to differ. It is only on a steady state path that the two would look alike and, in that sense, the true dynamics is missing along the steady state path (Hicks, 1969). He argues, the steady state is akin to statics. Such models cannot predict the break points or the turning points (*see*

for instance, McKibbin and Sachs, 1991) that are so important to understand the true dynamics of a changing economy. It is for this reason that in economics one has often to stick to qualitative analysis, and not go in for too much of so-called "scientificity" based on econometric analysis or mathematical models. They may involve a play with techniques which often yields credibility, but how much they enhance understanding is unclear.

In brief, modelling and choice of the correct variables for the models poses a major problem for analysis in economics in particular and in social sciences in general.

5. Scheme of the Book and Chapter Outline

The Indian economy continues to face major problems in spite of its apparently high economic growth in the last few years. In fact, partly, the problems are a result of the nature of the growth. The global economy is not yet out of the woods and continues to impact the Indian economy adversely. The economy today is far more open than at any point since Independence so that influences from the global economy rapidly traverse through the country. Since 1991, when the current phase of globalisation was set into motion, the performance of the economy has depended on the health of the global economy and especially that of the advanced economies. Various markets in India such as finance, energy, food and metals are now integrated with the global markets.

Integration with global markets has been accompanied by a deterioration in the social and political conditions with a rise in violence, instability and growing divisions in the political system. This has not gone out of control due to the rising economic activity, which has given hope to the youth and the middle classes that if they persist in their efforts they would make good in life. The ongoing global crisis has the potential of dashing these hopes and aggravating the crisis in society. This raises the chances of social and political situation in the country deteriorating rapidly.

This book situates the current state of affairs in the country in the historical perspective of developments since Independence. The Preface introduces various concerns that face the common man in India, and presents certain methodological preliminaries of a wider nature, like what we understand by progress, the role of leadership, why the long-term is critical, and how far back in time we should go for the analysis and understanding of current developments.

Chapter 1 constitutes the Introduction. It presents the world economic crisis which forms the backdrop to the current developments in India. Next, it highlights a few methodological prerequisites of an economic nature, such as the nature of the data on the Indian economy and its deficiencies, whether

economic growth by itself is a good measure of economic progress, the choice of variables for analysis, whether India can emulate China and the need for a historical analysis of the current problems. It is pointed out that analysis based on official data can be misleading since it contains large errors, including disregarding the existence of a large black economy. Hence, the scope of accurate or "scientific" analysis through mathematisation or use of econometrics can only be limited and one needs to understand developments in their broad sweep.

Chapter 2 presents the relevant historical context for the analysis of the post-1947 economic situation dealt with in subsequent chapters. The reasons for the continuing backwardness in Indian agriculture, industry, education and S&T, infrastructure and so on are discussed. Since the political context is critical for the formulation of policies and their implementation, the chapter discusses the emergence of the national leadership during the struggle for independence, and how its basic ideas about post-independence India evolved.

The importance of Gandhi and other nationalist leaders like Nehru, who became India's first Prime Minister and initiated much of the policy framework (known as the Nehruvian framework), is discussed. To understand the nature of the young nation's tryst with destiny it becomes necessary that we understand the forces shaping the thinking of the leadership.

The role played by the imposition in the colonial era of an education system which was only required to produce clerks, and where the medium of instruction was deliberately chosen to be a foreign language (English), in undermining the dynamism of the nation is presented. The idea was to produce a class in between the colonial masters and the people of India to ease the burden of governance and to act as the agents of colonial rule. It also led to the accentuation of the loss of value of ideas (from the pre-British period) and facilitated the acceptance of Western modernity amongst the ruling elite as being the only form of modernisation possible.

The Indian elite, in spite of the national movement for freedom, was enamoured of copying the West, and began to believe that what was indigenous was backward. It is argued that the strengthening of the feudal elements in India for the purpose of control of the colony has played an important role in the formation of the ideas of the leadership.

Finally, it is argued that the extraction of the surplus from the colony resulted in its backwardness and adverse social conditions. It is argued that all this constitutes the disruptions which continue to plague the economy and our society since Independence.

Chapter 3 looks at the historical developments in independent India, decade-wise. While the 1950s began with hope and major institutional changes were introduced by the budding nation, each of the following decades started

with a build-up of problems. The 1960s began with the war with China, the 1970s with the Bangladesh war and the oil shock, the 1980s with the approach to the IMF for adjustment and the 1990s with an economic collapse requiring massive assistance from the IMF and the World Bank, which imposed severe conditionalities. The first decade of this century also started with a collapse of the stock markets, problems with Pakistan, and so on.

The chapter tries to understand how the national spirit dissipated so quickly after 1947, and why the leadership degenerated so rapidly that its ability to shape the nation's destiny got greatly circumscribed, how the horizons of the nation narrowed in both space and time, and how leaders were reduced to being representatives of sectional interests even if they had the electoral mandate from the larger body politic.

Key international developments such as the Vietnam War, the collapse of the Soviet Bloc, the developments in Afghanistan and in China and the conflict between Israel and the Arabs form the background in which events are discussed. The chapter looks at the philosophical changes that policy in India underwent in the twentieth century. All these changes and the various phases are situated in the historical context of pre-independence India. However, the attempt is not to blame the colonial masters for everything but to identify the source of the problems on the limitations of the national perspective both in pre- and post-independence India.

Chapter 4 looks at the changing political economy since 1947, and identifies the different phases of the economy. These are not based merely on changes in rates of economic growth but on a wider set of considerations. The changing alliance between the different dominant economic groups and how the marginalisation of the marginals works itself out in India is presented here.

The chapter also analyses the rising hold of the corporate sector on policy making in India and its growing willingness to be a junior partner of international capital. The trajectory pursued by the Indian elite which, during the immediate post-independence period, opted for non-alignment and a relatively independent path, but progressively from the mid-1970s got co-opted by international finance capital is analysed.

In the post-1991 phase the convergence of the economic views of the mainstream political parties of different ideological hues, and the consequent marginalisation of the marginals is presented.

Chapter 5 analyses the theoretical aspects of policies pursued in India. The different phases of globalisation of the Indian economy are identified, and the role of the state and the markets, and their influence on macro and micro policies framework, are discussed. More specifically, planning, the public sector, financial and fiscal policies, the nature of resource shortage and mobilisation of resources for development are analysed. It is pointed out

that the poor have became residuals for policy makers because the trickle down has become acceptable as a permanent feature of policies.

Chapter 6 presents the changing sectoral structure of the Indian economy. The Indian economy is perhaps far more complex than any other economy in the world, with huge diversities, such as regional, rural, urban, and so on.

The complexities have also increased since the structures have been undergoing rapid changes. For instance, the agricultural sector, which was dominant in terms of output in 1947, is now a marginal sector and the services sector is now the dominant one. However, in terms of employment, agriculture is still dominant resulting in a marginalisation of the traditional agriculturists of India.

Further, it is argued that the organisation of agriculture, which was largely feudal and semi-feudal in 1947 and was based on subsistence farming, is now increasingly capitalistic and based on commercial farming for the market. Thus, analytically, there are no clear forms, and this poses problems for the analysis of food security, inflation and terms of trade.

Similarly, in spite of the changing structure of Indian industry, the dependence on small and cottage and unorganised sectors is substantial. The rapid growth of the services sector is linked to the nature of colonial rule and the country's backwardness at the time of independence. Going straight from a dominant agricultural sector to a dominant tertiary sector, skipping the stage of domination by the industrial sector, is analysed in order to understand whether it poses a problem for the Indian economy.

Chapter 7 analyses the post-independence relationship between India and the external sector, or the global economy. The nature of the globalisation India has been undergoing is analysed. It is argued that since the start of British colonial rule, globalisation has been a one-way process as opposed to its earlier two-way characteristics. Its impact on the economy and society is presented. This helps in understanding the changing trade patterns and capital flows in the post-independence period. The impact of international agencies such as the IMF, World Bank and WTO, that are driving this one-way globalisation, is also discussed here.

Chapter 8 points to the criticality of the often ignored dimension of Indian reality, namely the black economy. Its centrality to the success and failures of policies and to the macro and micro features of the economy are pointed out. How this has aggravated the effects of disruption, initiated during the colonial period, is analysed. It is suggested that the black economy in India is systemic and systematic, and this is only possible because of the alliance between the corrupt political class, the corrupt executive and the corrupt business class (called the Triad) The working of the Triad is illustrated by the analysis of some of the recent important cases of fraud and corruption — Satyam, Reliance, Justice Dinakaran, DGP Rathore, the auction

of 2G spectrum, the Sukna land case involving army top brass and the Madhu Koda case.

It is argued that a resolution of the current economic problems depends on tackling the black economy. However, it is also argued that the Triad, benefiting from the black economy constitutes the ruling elite and so is not interested in rectifying the situation. Consequently, basic changes in the political economy are required.

Chapter 9 begins by pointing to the backlog of infrastructure at the time of independence due to the lack of investments during the colonial period. It is pointed out that in critical aspects India's infrastructure even in 2000 had not come up to what Britain had achieved in 1950. The role of the public sector in building it since independence is highlighted. A key aspect of India's development is urbanisation, which has resulted in the growing urban-rural divide. It is pointed out that India is blindly copying concentrated urbanisation even though it is not suited to a poor country, and that this has become a part of the continuing disruption in society. It came as a package of the development path chosen by the country.

Developments on the transportation, energy and communication fronts are presented. Disinvestment and the opening up of these sectors to the private sector after 1991 is discussed. It is pointed out that the recent expansion in telecommunication is due to scale economies and not just because of the entry of the private sector. An analysis of the health sector is carried out in this chapter. The role of the public and the private sectors in health delivery is discussed in the context of the need for a holistic approach to health.

Chapter 10 analyses the linkages between poverty, the environment and marginalisation. The relationship between employment, technology and incomes is brought out. It is pointed out that from the point of view of technology, India has suffered from the disadvantage of a late start, and that one consequence of this is the jobless growth in the organised sectors, which are absorbing a lion's share of investments in the economy.

The unorganised sectors are where the marginalised groups — women, SC, ST, OBC and Muslims — are concentrated and they are getting marginalised. The issues these sections confront are poverty, poor governance, corruption, discrimination, food security, poor living conditions, lack of education, unemployment, inflation and displacement. The impact of the deterioration of the environment on poverty and on the marginalised is analysed in the context of the growing international division of labour. The consciousness of leaders from the marginalised communities is commented on. It is argued that this consciousness has neither got democratised nor advanced enough for such leaders to fight for the genuine rights (such as the right to education, employment and so on) of the people they seek to represent, which would

result in their true progress. Instead, the leadership of these sections has all too often got co-opted by the leaders of vested interests.

Chapter 11 presents developments in education and science and technology (S&T) and argues that these are critical to overcome the disruption faced by India. It also points to the use of education by the colonial masters to create disruption in Indian society and to reduce its dynamism. It was a deliberate ploy of the colonial rulers and we need to confront it. The education policies in post-independence India are not based on indigenous needs but are a crude copy of Western models. India's higher education continues to be dominated by feudal elements and society bypasses it so that it lacks the prestige to fulfil its difficult task of generating new knowledge.

The importance of S&T and the brain drain is highlighted. It is argued that technology is a moving frontier so that backwardness can last a long time if there is no clear strategy for catching up with the advanced nations. This requires dynamism in society which is muted by the disruptions from the past. Issues relating to the social impact of rapid technological change are discussed.

Chapter 12 presents the conclusions. It summarises India's current situation in the context of the continuing colonial disruption and the ongoing global economic crisis. It presents alternative vision / policies that can help change them by converting the present one-way globalisation into a two-way process. The argument is not against globalisation *per se* but its hegemonised variety. It argues that alternative policies are feasible and they can help India overcome the colonial disruption of society and make it dynamic. What India may be able to achieve with such policies is briefly sketched out.

Chapter II

Pre-Independence India and the Disruption of Society

1. Introduction: Hysteresis and Historical Facts

India has arrived at the present juncture in its development through a process of historical evolution that determines our thinking and our attitudes. Understanding this is the key to understanding our present, what the problems are and how they may be overcome or corrected.

A society does not suddenly emerge from out of nowhere. Each society has a historical specificity, and its dynamics is determined largely by the path it is traversing. The implication is that there is a space and time specificity of any society and economy. Given this, an ahistorical view results in missing the true dynamics of a society. Unfortunately, the purely economic view is often ahistorical and based on notions of time reversibility. Implicitly, it is assumed that one can conduct experiments in society and that if one does not succeed one can go back and restart. This is a luxury available to a scientist, or to one conducting a thought experiment, but not to a society. There is hysteresis in many natural phenomena, that is, the present state remembers the path by which it arrived there. This applies with even greater force to societies, economies and individuals, so that the path they traverse, and their history, is not only important but there is an irreversibility to it. One cannot go back and start all over again. Also, along any path, there are not only benefits but also costs that actual people and groups have to bear, which cannot be either reversed or compensated for when the path is sought to be altered.

In social sciences, we have to analyse and understand a society as it is and not as a hypothetical one. Even in the sciences it is well accepted that we analyse the universe as it is, otherwise there would be an infinite number of them and we would not even be able to talk to each other much less arrive at an agreement. This applies with even greater force in the social sciences.

The question may also be asked as to how far back we need to go to understand the current social dynamics of a society. In this book, it is being assumed (*see* the discussion in the Preface) that if a nation has a disjuncture or a "break point" in its history, that might be a convenient point from which

to begin the analysis. Independence is taken as a break point for the Indian economy. Further, it is assumed that to understand the dynamics of this period, it is enough to take the immediately preceding period, the British colonial period, into account.

The data for the historical period prior to independence is rather sketchy and not comparable with that available for the post-independence period. No doubt, the British were committed administrators with a sense of history and so recorded data more meticulously, but the extent of data collection was much less than in the post-independence period where, for planning purposes, a lot of data was needed. Further, when interpretation of events for the current period is so difficult in spite of having lived through and experienced it, the process would be far more difficult for the earlier period of which we have no direct experience and for which only limited data is available. It is the historians who are better equipped to analyse the earlier periods through their own well-established methods. Of course, it may be argued that the current period is more difficult to analyse because of our subjective involvement in it while we can be more objective about the earlier period in spite of lack of full data.

Regarding availability of data and its use, the analyst's perspective is important (Carr, 1964). For instance, if the data generated by the British rulers was to be the only source available then one could conclude that they did the best possible given the circumstances. Indians were backward, so the country could not have done better and, therefore, should be grateful for the civilising influence of the British rule. It gave India the great railways, police, army, judiciary and the civil services which our post-independence leaders called the "iron frame of India" and which enabled the post-independence development to take place.

If the nationalist interpretation had not emerged (say, Dadabhai Naoroji, Gandhi and R. P. Dutt) writers of a later period, on the basis of the colonial writings, would have characterised this period as a golden period for India. However, since alternative views did emerge and generated alternative data and interpretations, it introduced some balance in the one-sided view of the colonial writers. Even now, some in India, who perhaps lived in that period, glorify British rule [the best early example would be Chaudhury (1951) even though it is also argued that there was a double meaning to what he wrote]. They subscribe to the Churchillian view that independent India cannot govern itself, and point to the growing strife. They look back with approval to the "peace and tranquillity and the rule of law" under the British rulers. They point to the growing corruption and crime in post-independence India to prove their point.

It is possible that both sources of data and interpretation suffer from exaggeration for political reasons and therefore do not reflect the true picture

of pre-independence India. Again, it is historians who may resolve such issues over time. Here, in this volume, only stylised facts from the British colonial period are taken into account. It is argued that British rule disrupted the internal dynamics of Indian society and that this has persisted in the post-independence period. This is both a logical proposition applicable to colonial rule and an observed reality (discussed in later sections).

The other idea developed here and carried forward to subsequent chapters is regarding the nature of globalisation of Indian society. The coming of the British to India and their acts of omission and commission in the country constituted a different form of globalisation than the one currently being witnessed (*see* next section).

2. One-Way Globalisation Since 1750

Globalisation is used here in the sense of easier flow of people, of goods and services, of capital and of ideas across borders (discussed in greater detail in Chapter VII). There is no measure available to define a level above which one can say there is globalisation and below which it may be taken to be absent. In this sense, globalisation, like much else in social sciences, is a process. One can be moving towards more of it or less of it. Taken thus, Indian society has been globalising over a long period of time through trade flows and flow of ideas. The advent of British rule changed its nature and made it a "One-way Globalisation".

India has been trading with the Arabs, Africans and the South-East Asians for long, and this constituted India's early globalisation. Indian traders not only took with them ideas and culture but they brought back goods, ideas and cultural influences. In other words, there was a two-way flow of goods and ideas, including religious beliefs.

In those days, movements and communications were slow, and so churning took place over long time spans and ideas spread slowly. Also, unlike today there were local filters in place so that ideas and culture got selectively absorbed, and emerged in hybrid forms. There was also, perhaps, suspicion and resistance to things foreign which slowed the absorption process. This only meant that globalisation was slow and not that it was non-existent, as people who believe that globalisation is a recent phenomenon seem to suggest. Above all, its two-way characteristic should not be forgotten.

The advent of British rule in the eighteenth century brought with it a powerful civilisational influence over India which swept all else before it. It came with its powerful technological advancement, a coherent social structure and a belief in its superiority. These features enabled the colonisers to exploit the divisions prevailing in the Indian sub-continent. They used th

policy of divide and rule right through their reign to prevent Indians from getting together and opposing colonial rule. In a heterogeneous social structure like that prevailing in the Indian sub-continent, not only was this easy but it also led to the divisions becoming more deep-rooted, and these continue to plague India till date. It is the emergence of the national movement that enabled Indians to overcome to some extent some of the divisions and to overthrow British rule.

India had considerably lost its dynamism precisely in the period that Western civilisation had become dynamic. It is noteworthy that in the very period when the great centres of Indian learning, like Taxila and Nalanda, were fading away, in Europe new universities were coming up — like Padua, Paris and Oxford. Even at the height of the Mughal rule during Akbar's time, no new institutions of higher learning came up that survive today. In contrast, soon after the Europeans started to colonise the new land in the USA, they set up universities and colleges which are known today as some of the best in the world — Harvard, Princeton, Yale and so on. While the emphasis on new knowledge generation was growing in Europe, especially after the Renaissance, it seems to have been on the decline in India.

According to Dharampal (2000), until 1750, some new knowledge was being generated but by 1800 this had almost ceased. He writes, "Ironically, it is mainly through the British archival records that one becomes aware of the extensive nature of the education network, as well as its speedy decay in the Madras and Bengal Presidency . . . ." (Dharampal, 2000: xiii). The unsettled conditions in various parts of India and the weight of British rule seemed to have accelerated the decline of dynamism in Indian society. This resulted in India becoming increasingly dependent on the British rulers for all that was happening in India and enabled the British to push their own interests on to India. As a result, increasingly globalisation became one-way.

When the Europeans came to India they wanted to trade in various goods that India produced but by the time the British became masters they were interested in pushing their own goods on to the Indian people so that they could expand their industries. This became a vicious cycle which led to Indians losing dynamism, the British pushing their interests further and thereby causing further decline in dynamism.

Dutt (1960:180) has quoted from H. H. Wilson, historian of India, "It is also a melancholy instance of the wrong done to India by the country on which she has become dependent. It was stated in evidence [in 1813] that the cotton and silk goods of India up to the period could be sold for a profit in the British market at a price from 50 to 60 per cent lower than those fabricated in England. It consequently became necessary to protect the latter by duties of 70 and 80 per cent on their value, or by positive prohibition. Had this not been the case, had not such prohibition duties and decrees existed,

the mills of Paisley and Manchester would have been stopped in their outset, and could scarcely have been again set in motion, even by the power of steam. They were created by the sacrifice of the Indian manufacture. Had India been independent, she would have retaliated, would have imposed prohibitive duties upon British goods, and would thus have preserved her own productive industry from annihilation. This act of self-defence was not permitted her; she was at the mercy of the stranger. British goods were forced upon her without paying any duty, and the foreign manufacture employed the arm of political injustice to keep down and ultimately strangle a competitor with whom he could not have contended on equal terms."

Dutt (1960: 181) adds: "While such was the policy pursued in England to discourage Indian manufactures, the system pursued in India did not tend to improve them. The revenues of the country were spent on the Company's Investments, i.e. on the purchase of Indian goods for exportation and sale in Europe without any commercial return . . . ."

Education was used to push the British interests in India. Hegemony could be exercised over the Indian mind by extolling the superiority of the European civilisation. Things indigenous were characterised as backward and of little value. English was to be promoted as the medium of instruction for higher education since, it was argued, that little useful knowledge existed in the vernacular languages, including Sanskrit and Persian. These were the elements of Macaulay's "Minutes" (Ghosh, 1995:30-33), spelling out what ought to be done for education in India.

The idea was two-fold. First, to make new knowledge generation difficult, if not impossible, and second to create a class of Indian elite that would be subservient to the British interests. This class would consider ordinary Indians to be inferior and would also be the medium for circulating Western ideas in India. In other words, they would be alienated from ordinary Indians. It was suggested that ". . . printing of the Oriental works should be stopped, all Oriental colleges except that at Delhi and Banaras should be abolished and all stipends should be discontinued." (Ghosh, 1995:33) In *Hind Swaraj*, Gandhi asks, "India's Westernised elite — lawyers, doctors, and the wealthy — to acknowledge their distance from the people and simplify their lives. . . ." Gandhi writes, "Those in whose name we speak we do not know, and they do not know us." (Gandhi, 2006: 154)

In the process of losing their dynamism, Indians inevitably lost the value of ideas. They increasingly copied ideas from other lands. This led to the poverty of the mind and has resulted in the real poverty of India over time (and still suffers from it). The impact of this may be gauged from the thinking internalised by academics who conceive of their own role as that of teaching (no harm in that) and not of doing research to generate new ideas. Consequently, society has increasingly bypassed its institutions of higher

learning and gone to foreign institutions to borrow ideas whether relevant to the national context or not.

The institutions of higher learning, largely divorced from the national setting and recycling ideas from abroad, have not only been alienated from society but have seen their own role as subsidiary to that of the ruling elite. Academics have often aspired to be bureaucrats and, failing to make it, joined academia but continued to think of their status as inferior. They have conceded the social leadership role to others who cannot inherently be leaders of ideas but can only be borrowers. This has been a further cause of the loss of value of ideas and the decline of dynamism in society.

One-way globalisation has meant that in the last two hundred and fifty years, life in India has changed considerably, but to a Western pattern. Small and big changes, like the use of the tooth brush instead of the neem twig or the use of electricity for energy instead of burning wood, travel using motorised transportation or air travel, the use of computers have all come from the West. The contribution of Indians (or others from the developing world) to the changes in our lives is minimal. Our adoption of Western dress, language, sports and culture has been substantial. Even our notion of success is Western. Successful Indians have gone West for training as doctors, lawyers, academics, scientists and technologists. They have returned with Western ideas about life and this has become our notion of modernity to the exclusion of indigenous ideas (characterised as backward).

3. Some Important Developments in Pre-Independence India

Kennedy (1988) shows that India's contribution to the world manufacturing output that was 24.5% in 1750 dropped to 1.7% by 1900 (*see* Table 2.1). From a major economic power it became a minor one. In contrast, the share of the USA went up during the same period from 0.1 per cent to 23.6 per cent to become the dominant force in manufacturing. The British rule is said to have led to deindustrialisation which caused many active Indian industries to decline sharply (*see* Dutt, 1960, p. 180). This was due to the twin factors of the inflow of British goods and the lack of investment in Indian industry, as it generated little surplus for ploughing back into business and especially into heavy industries.

Table 2.1

Relative Shares of World Manufacturing Output 1750-1900

(In percentage)

Country / Region	*1750*	*1900*
Europe as a whole	**23.2**	**62.0**
UK	1.9	18.5
France	4.0	6.8
German States / Germany	2.9	13.2
Italian States / Italy	2.4	2.5
Russia	5.0	8.8
United States	**0.1**	**23.6**
Japan	3.3	2.4
Third World	**73.0**	**11.0**
China	32.3	6.2
India / Pakistan	**24.5**	**1.7**

[*Source:* Kennedy,(1988)].

3.1 Deindustrialisation, Drain of Surplus and Lack of Investment

Dutt (1947: 134) has argued that, "Decisive, however, for industrialisation is not the development of the textile industries — but the development of heavy industry, of iron and steel and the production of machinery. And it is here that the weakness of India stood out before the war. India remained still wholly dependent on abroad for machinery." Further, on p. 136, Dutt writes, "Thus the real picture of India on the eve of the war was a picture of what has been aptly called 'deindustrialisation' — that is the decline of the old handicraft industry without the compensating advance of modern industry." He continues, quoting Buchanan (1934): "While the proportions are gradually changing, Indian economic life is still characterised by the export of raw materials and the import of manufactures."

Lack of industrialisation in India during the British period led to a large proportion of the population becoming dependent on agriculture (*see* Table 1.1). It had an adverse impact even on village industries. Dutt (1947:169) quotes Indian Central Banking Enquiry Committee which reported in 1931 (p. 39), "The proportion of the population of India living on agriculture is very large and it has been steadily on the increase . . . ." He quotes the Census Commissioner for 1911 as saying, "The extensive importation of cheap European piece goods and utensils, and an establishment in India itself of numerous factories of the Western type, have more or less destroyed many village industries."

The British were interested in capturing the Indian market and not in its internal development and that is what their policies were oriented towards. The coming of the railways helped in market penetration by connecting the ports to the hinterland. There was also the drain of wealth from India to the colonial master in the name of home charges. Few universities, colleges and schools were set up to enable the local population to acquire skills so literacy levels and school enrollment remained low till independence (*see* Table 1.1).

Dutt (1947:116-117) quoting Paish's paper of 1911, which gave the figure of "British capital invested in India and Ceylon . . . at pound 365 million". Dutt says on this, "97 per cent of the British capital invested in India before the war of 1914 was devoted to purposes of government, transport, plantations and finance — that is to say, to purposes auxiliary to the commercial penetration of India, its exploitation as a source of raw materials and market for British goods, ..." He adds, "Other estimates of British capital investments in India before 1914 placed the total at pound 450 million (H.E. Howard . . .), and at pound 475 million (the *Economist* . . .)."

Dutt (1947: 122) adds, "After allowing the fullest margin of variation for the factors that cannot be exactly calculated, the broad conclusion is evident and inescapable that the exploitation of India in the modern period is far more intensive than in the old. It was estimated that in the three-quarters of a century of British rule up to the taking over by the Crown, the total of tribute withdrawn from India had amounted to pound 150 million. In the modern period, during the two decades before the war, it is estimated that the total annual tribute from India to England is in the neighbourhood of pound 135 million to pound 150 million."

Dutt (1960: 31) writes, "But perhaps the greatest evil from which the country suffered was the continuous drain from Bengal, which went on year after year for the profit of the Company, or for their expenses in other parts of the world. A statement of revenues and expenses of Bengal during the first six years after the grant of the Dewani to the East India Company is given in the Fourth Report of the House of Commons, 1773. . . . These figures show that nearly one-third of the nett (*sic*) revenues of Bengal was annually remitted out of the country. But the actual drain could be much larger."

Dutt (1947:187) says, "In Bengal the land revenue in the last year of the administration of the Mogul's agents, in 1764-65, totalled pound 818,000. In the first year of the East India Company's taking over the financial administration, in 1765-66, it was raised to pound 1,470,000. When the Permanent Settlement was established for Bengal in 1793, the figure was pound 3,091,000." Further, ". . . Under the crown the total rose to pound 17.5 million by 1900-01 and pound 20 million by 1911-12. In 1936-37 the figure was pound 23.9 million."

It was only due to the weight of the national movement which promoted Swadeshi and the boycott of foreign goods, that some indigenous industry began to be developed. Some growth, however, did take place during the inter-war years between the 1920s and the 1940s — again in the interest of the Raj, since not everything could be imported into India during this period. On the whole, however, due to lack of adequate investment in industry, most of the population remained dependent on agriculture (Table 1.1). Further, due to a lack of investments in agriculture, it was not a dynamic sector capable of pulling people out of poverty. Hence, a bulk of the population remained confined to very backward agriculture in rural areas.

3.2 Backwardness of Agriculture and Reinforcing of Feudal Control in Rural India

The British were few in number and controlled a vast population through the creation of an intermediate class amongst the local population. In the rural areas, they created and strengthened landlords to control the population and extract rent from the farmers.

Dutt (1947: 213-14), explaining the agrarian crisis, says, "The first feature is the increasingly lopsided and unbalanced situation of agriculture in the national economy, the simultaneous overcrowding and underdevelopment, with still continuing 'deindustrialisation', ... This was further aggravated by . . . the extension of landlordism, the multiplication of letting and sub-letting, . . . and the increasing transfer of land into the hands of these non-cultivating owners."

Landlordism not only helped keep political control over the population but also control over the surplus generation in the economy. Of course, there were differences between the Permanent Settlement and Ryotwari systems but the purpose was the same. Backwardness of agriculture also meant that the capacity of the local population to revolt against their conditions was low. They were constantly confronted with adversity and, given their illiteracy and low political consciousness, they could hardly think of political independence.

Prior to British rule, the nature of relationship between the rulers and the subjects was different. Enough surplus was left in the hands of the latter so that they could improve their conditions and invest in production. They could meet conditions of adversity like droughts more easily. Those rulers also invested a part of the surplus into the land since they were not taking it out of the country. In other words, while there was exploitation it was far less than during the British rule, and the surplus did not flow out of the country.

3.3 Undemocratic Institutions of Governance

During the Raj, the centralised bureaucracy, the judiciary and the police were instruments of control and collection of surplus. Each district was under the charge of a bureaucrat called the District Magistrate, who was also the Revenue Collector. His developmental tasks were minimal and perhaps incidental to the main work. The police was a brutalised force, alienated from the common people and projected as their master or "Mai Bap". The judiciary interpreted the law as established by the colonial masters for the protection of their own interests. These services were answerable to the British rulers and not the Indian people. They were not democratically constituted, unlike their role models, the British counterparts, which were answerable to the British people.

For instance, the traditional Panchayats which existed in much of India were broken up by British rule, and this greatly impacted village life. Dutt (1960: 243) quotes from Report on Territories conquered from the Peshwa, dated 25th October 1819: "The Mahratta country flourished, and the people seem to have been exempt from some of the evils which exist under our more perfect Government. . . . By means of the Panchayat, they were enabled to effect a tolerable dispensation of justice among themselves . . . ." It is argued (p. 244) that this system was slowly decimated and a heavy burden of tax imposed on the villagers.

In the context of water, which was essential for cultivation, control was passed on from local bodies to the engineers with the result that local ponds and field channels maintained by the community were allowed to run down. This not only affected agriculture adversely but more importantly marginalised the role of the community in the life of the citizens, and made them increasingly dependent on the colonial masters. Self-sufficiency of local communities was sought to be broken so that British rule could be firmly established.

In the post-independence period, these structures of governance have been continued without major changes. There was even approval when the leaders of independent India called the bureaucracy "the steel frame". Given the challenges faced by India immediately after attaining independence, the leaders of the time were grateful that they had experienced administrators to depend on at a time when they themselves were relatively inexperienced. Above all, the consciousness of the leadership had not become democratised enough to understand that rather than be grateful to these instruments of British colonial rule, there was need to transform them as soon as conditions settled down. The implication was that the leadership viewed the departure of the British as a change of guard but not a basic transformation. The country had to pay a price for this status quo since, over time, these institutions

became a part of the undemocratic structures of independent India and the cause of the marginalisation of large sections of the country's people.

3.4 Poor Socio Economic Conditions

During British rule, the social and economic conditions of the bulk of the people remained rather dismal (*see* Table 1.1). Illiteracy was widespread, health conditions were poor and the death rate was high so that despite a high birth rate, the population hardly grew. Physical infrastructure, like roads and the supply of safe drinking water was lacking. Poverty soared.

Sridhar (2008: 20-21) notes, "Before the introduction of Railways, famines were infrequent, occurring once every 50 years. . . . Between 1860 and 1909 there were 20 famines." He quotes K. C. Dutta as saying that the "Output of food crops per capita dropped from 587 to 399 pounds between 1893-94 and 1945-46. Adding to the shortages was the fact that India was exporting food during this entire time." Further, "B. M. Bhatia estimates that between one-fourth and one-third of the population were undernourished because of the lack of purchasing power." The scale of the famines can be gauged from the quote, "The 1943 Bengal Famine is a landmark. . . . It is estimated that around 1.5-3 million people died from under nutrition." After this traumatic event, apparently, a food plan was created called the "Grow More Food Campaign". Its objective was increasing food grain production and moving away from cash crops to food crops. However, nothing much came of it.

Due to the backwardness of the country, and especially of the rural areas, social consciousness was feudal. One's social status mattered more than capability. There was subservience to those in power. Even the tiny numbers of professionals and the middle classes, created by the colonial rulers as an intermediate group between themselves and the common people, remained largely feudal in their attitudes. The gap between them and the common people was large and, as Gandhi said, they were alienated from the people. It was during the national movement that this gap was sought to be reduced, especially due to the efforts of Gandhi who identified with the poor. On the whole, however, the political leadership, mostly emerging from the small elite classes, remained steeped in feudal values.

3.5 Lack of Education, R & D and Inappropriate Choice of Technology

Education is crucial for the uplift of people and for economic development. It helps generate new knowledge and imparts dynamism to society (for a full

discussion of these aspects, *see* Chapter XI). Colonial rule did not emphasise education, perhaps because a literate population would have more actively opposed its ravages. Schools were few and far between and set up by the churches or by the well-off as charity. However, whenever there was a demand for more institutions of higher learning, the argument given was that there was a need for more schools. So, neither schools nor colleges nor universities were opened in significant numbers. When J. N. Tata proposed to set up a fund for research, it was thwarted by the viceroy and the officials around him (Kumar, 2006: 202-4).

English as a language of learning was promoted on the grounds that there was little of worth in the vernacular languages (Macaulay, 1835). In fact, financial support to colleges teaching in vernacular languages was sought to be curtailed. The real objective was to make it difficult for the local population to think originally so that they would become permanently dependent on the British.

When the British did bring in technology, it was for their own self interest and not that of the Indians. For instance, Kumar (2006: 155-6) says, "Tea and indigo formed major items of export." But little research was done in these areas even though a lot of revenue was earned from them. Little research was undertaken in indigo till Germany perfected its synthetic counterpart. Kumar (2006: 179) adds, "Another important feature is the almost total absence of pure or theoretical research. . . . India was found suitable only for field research. She was in fact used as a "vast storehouse" with exotic varieties of flora, fauna and minerals which were to flood the European laboratories for many years to come. The real research was thus to be done in the metropolis . . . the Indians and India's interest were left largely in the cold."

In the case of the railways, extolled as a great contribution of colonial rule to India's development and modernisation, the truth is that the British had surpluses to invest and also needed to access markets for their finished products and to get raw materials for their factories. (*see* Sridhar, 2008 quoted above on the impact of the railways on food shortages and famines). The British did not promote internal transportation as much as they could have because that would have helped indigenous industry and also given it protection. Further, that this may not have been the appropriate stage of development for importing high technology (in the form of railways) into a backward nation did not matter to them.

That modern technology might be capital-intensive and lead to unemployment and poverty was clearly not a cause of concern to the colonial masters. For Britain, the colonies were a place to export their own excess labour which was getting displaced due to the setting up of modern industry in their country. Incidentally, the surplus of the colonies which was accruing to them gave the British additional investment to generate greater employ-

ment. For India, such modern technology was not a viable option at a time when it was being drained of surplus (*see* the above sub-section), experiencing low investment rates and finding itself without places to export its increasingly redundant labour to, except as indentured labour to overseas plantations.

With little investment taking place in the country, and capital stock rising slowly and that too mostly controlled by the foreigners because of their hold over technology, there was little of indigenous capital in the hands of Indian businessmen. It was only around the time of the First World War that Indian industrialists started to emerge. They were small by world standards and therefore not able to compete in the world markets. They had little technology and R&D capability to become independent, and this created a psychology of dependence which continued in the post-independence period as well.

3.6 Conclusion

This section highlights the key problems that India had to confront as a result of colonial rule. Every aspect of life was impacted since the interest of the British was in the exploitation of the colony. There was a decline of agriculture and industry, famines increased in intensity and frequency, socio-economic conditions were poor due to the drain of the economic surplus, there was little investment, and whatever investment there was, like that in the railways, was to help increase exploitation. The choice of technology was not dictated by Indian interests, local self governance (through Panchayats) was destroyed and replaced by centralised control, and so on. The intermediate class created by the British between themselves and the common people produced most of the leadership which came to power after independence. Further, this class manned the institutions of governance set up by the colonisers and after independence there was little change in either the attitude of the personnel or the structure of the institutions so that undemocratic conditions continued. Education was closely controlled so that (a) there was little of it, and (b) the use of English, a foreign language, was promoted at the expense of vernacular languages so that research became difficult if not impossible in spite of the access that it provided to more advanced research. Both these led to a loss of dynamism in society and to its backwardness even after independence.

4. The Emerging National Leadership

Leadership plays an important role in giving direction to a nation. Its perceptions and attitudes are critical. Independent India's leadership was shaped during the colonial period. There were two contradictory pressures on it.

First, given the racial discrimination and visible oppression of the population, there was the desire for political independence. Secondly, since the leadership largely emerged from the intermediate class created by the British, it was impressed with Western modernity and wanted to adopt it as independent India's framework for development. There were notable exceptions like Gandhi, but most of the Congress leadership under Nehru adopted this project of modernity as their guiding force. By the time of independence, the leadership was either substantially Western-trained and / or influenced by its ideas. This acceptance of an externally-defined path stood in contrast to the desire for independence which needed to be internally defined.

Of course, most of the leadership did not see this contradiction since it was voluntarily following the path of Western development. That this created a hegemony of ideas which were not suited to India's own needs was not apparent to the modernisers.

Due to historical factors, and a clarity of thought based on his understanding of the long run, Gandhi had rejected the idea of Western superiority. In fact, he suggested that England had to be pitied (Gandhi, 1909), and that Western civilisation was inappropriate to the needs of the world. He argued that the indigenous had to be the basis of development. He believed that Indian philosophy was superior to that of the West and so needed further development rather than rejection. Regarding the Western civilisation his view was, "This civilisation is such that one has only to be patient and it will be self-destroyed. According to teaching of Mohammed this would be considered a Satanic Civilisation." (Gandhi, 1909: 33). He saw its many contradictions which would lead to its eventual downfall but did not specify a time-frame for this to happen.

For Gandhi, ". . . violence and a diseased Western (or modern) civilisation went together, as did satyagraha and Indian civilisation, which though corrupted was sound at its core." (2006, Gandhi 152). The most clear-cut formulation of Gandhi's philosophy is to be found in the *Hind Swaraj*, written in 1909, "The argument of *Hind Swaraj*, addressed, interestingly enough, to India rather than to the Indians of South Africa, may be summarised as follows: At one level, swaraj or self-rule must mean an individual's rule over himself or herself. At the political level, it means home rule or self-government. But if it is to satisfy, self-government must be grounded on the control that leaders and citizens exercise over themselves." (Gandhi, 2006: 153). In brief, swaraj was to be equally applicable to the individual, local government and the nation.

Gandhi wanted an Indian version of freedom with its own ideas and not those borrowed from the very Englishmen from whom Indian nationalists wanted freedom. But this was hardly the view of Nehru's or his followers' view. Gandhi's idea of independence was, ". . . where 'the last is equal to the

first or in other words, no one is to be the first and none the last,'. . . . Independence must begin at the bottom. Thus, every village will be a republic or panchayat having full powers. . . . Life will not be a pyramid with the apex sustaining the bottom. But it will be an oceanic circle whose centre will be the individual always ready to perish for the village, the latter ready to perish for the circle of villages, till at last the whole becomes one life. . . . Therefore the outermost circumference will not wield power to crush the inner circle but will give strength to all within. . . . I may be taunted with the retort that this is Utopian and, therefore, not worth a single thought. . . . Let India live for this true picture, though never realisable in its completeness." (Gandhi, 2006:543-544).

Gandhi's and Nehru's visions of society were diametrically opposed. Yet, it was the tragedy of Gandhi that he had to anoint Nehru as his heir. Gandhi initiated a discussion with Nehru in the fall of 1945 (Gandhi, 2006: 534-35). He said, "I should at least understand my heir and my heir in turn should understand me." The differences could be spelt out as, "Nehru freely embraced modernity but was wary about religion, positions very different from Gandhi's. Nehru used the language of 'class war' that Gandhi disapproved of and supported a state-dominated economy about which Gandhi was sceptical."

Jawaharlal adhered to his objections to what he saw as *Hind Swaraj's* anti-modern thrust and to Gandhi's emphasis on the village, "I do not understand," wrote Nehru, "why a village should necessarily embody truth and non-violence. A village, normally speaking, is backward culturally and intellectually, and no progress can be made from a backward environment."

For the Nehruvians, what was not modern was characterised as backward; and there was nothing in between. Unlike Gandhi, they could see few possibilities on which to build a new India in continuity with its past. Undoubtedly India confronted many problems but so did all other pre-modern societies and the successful ones were those that built on the base of what existed rather than on borrowed ideas. From the preceding narration, it can be concluded that for Nehru villages were backward and had to be transformed to modernity through completely changing what they had, by intervention from outside by those who knew better.

For Gandhi, the backwardness was the starting point for regaining dynamism in society. He saw positives in the situation since villages were closer to nature and could more easily get to the truth due to the simplicity of the life there. In contrast, for Nehru that was the very problem of backwardness which required change. In this sense, Gandhi was being democratic while Nehru was not.

It is not that Nehru did not understand why there was backwardness but he did not fully take into account that this was perhaps a temporary state of

affairs due to the drain of surplus and other actions of colonial rule. Instead, he seemed to associate the backwardness with a seemingly permanent state of affairs of Indian villages. He, therefore, did not see that this could change if the social and economic structures changed. The corollary was a view of permanent backwardness of villages and this suited the urban, Westernised elite since it gave them legitimacy for further marginalising the villages, and the rural population, even after independence.

However, it must also be said that Nehru was not entirely uni-dimensional in his appreciation of Western modernity. Nehru (1934: 6) writes, "Sometimes we read about past periods of history which seem to be better than ours, more cultured and civilised even, and this makes us doubt if our world is going forward or backward. Our own country has surely seen brilliant periods in the past, far better in every way than our present."

Gandhi reiterated his belief that in India life had to be improved in the villages, where most of the population lived. He argued that ". . . millions of people can never live in cities and palaces in comfort and peace. . . ." (Gandhi, 2006: 535). Further, he writes in *Hind Swaraj*, ". . . we want English rule without the Englishman. . . . You would make India English. . . . This is not the Swaraj that I want." (Gandhi, 1909: 26).

Gandhi understood that the Western-educated elite was alienated from the common Indian. One analyst writes ". . . in extolling the simple life and asking satyagrahis to embrace poverty, Gandhi's goal is the end of Indian misery. It is for removing want in India that he wants satyagrahis to limit their own wants. *Hind Swaraj* asks India's Westernised elite — lawyers, doctors, and the wealthy — to acknowledge their distance from the people and simplify their lives." Gandhi is quoted as saying, "Those in whose name we speak we do not know, and they do not know us." (Gandhi, 2006: 154).

For Gandhi, tradition was important and this is brought out in *Hind Swaraj*, "A nation that is desirous of securing Home Rule cannot afford to despise its ancestor. We shall become useless, if we lack respect for our elders." (Gandhi, 1909: 19).

In spite of the diametrically opposed views, Gandhi preferred Nehru to lead the Congress Party for very practical reasons, he stated, "He a Harrow boy, a Cambridge graduate and a barrister is wanted to carry on the negotiations with Englishmen. If the talks were successful and led to a national government Jawaharlal as the Congress president would lead it." (Gandhi, 2006: 545).

To Gandhi, the means were as important as the ends. Thus, he did not mind independence coming a little later if that would be better for the nation. He did not mind a delay if it meant that communal harmony could be strengthened and that there would be no partition. However, by the mid-1940s, Congressmen were willing to compromise for the sake of power, as

they felt that they were "Tantalisingly close to freedom and its rewards, including positions of prestige and power, Gandhi's colleagues were more eager than he was to have issues 'settled'. During these negotiations they often felt closer to the British ministers than to their chief — their erstwhile chief, ..." (Gandhi, 2006: 548). It almost seemed that they saw Gandhi as a hindrance to their drive for power.

Gandhi's failure was that he could not put into place a leadership that would carry forward his ideas, which were so radically different from the ones being espoused by the Westernised Indian elite, whose faith in democratic functioning and an independent development path was still weak. In this sense, Gandhi's use of the available leadership constituted a use of an incorrect means to attain an end, freedom. Even though he said that Nehru was a "Harrow boy", and that they needed to know each other better, meaning that they had fundamental differences, he had no option because he had no other leadership available to him. History cannot be changed but it may help recognise mistakes that can guide later generations to correct their consequences.

Many of the post-independence problems can be traced to the (incorrect) choice of leadership. This leadership believed in the top-down approach, and the creation of a modernised (read Westernised) society, and thought that whatever was indigenous was backward and had to be rejected rather than transformed. It did not cross their minds that the Western societies which they admired had also passed through similar backwardness and brutality, and it had been their internal dynamics that had transformed them rather than the copying of some ready-made formula from elsewhere. They could not see that the so-called civilised European societies, which claimed to be civilising the barbarians, themselves displayed a barbaric attitude when they decimated many an indigenous peoples all over the world. Their continued violence in the world wars and, among others in Iraq are recent examples of their continued barbarism. These negativities of Western civilisation which were so apparent to Gandhi were discounted by the Indian elite, including Nehru. Perhaps apart from its reformist aspects, the appeal of Western civilisation lay in its startling and rapid material progress which was so appealing that its protagonists were willing to forgive its negatives as aberrations.

In spite of the obvious mistakes associated with the path of modernity, the Indian ruling elite borrowed / copied indiscriminately, ideas like, consumerism, but the positives, like, dignity of labour and belief in equity, were only marginally adopted. Consequently, at a low per capita income, there is substantial environmental decline, democracy remains weak and feudal influences still dominate.

In the above discussion, one can replace Nehru by almost any other leader of the Congress party or a member of the Indian elite aspiring for

freedom. In that sense, Nehru represented the Congress thinking. That is why, over time, Gandhi with his starkly different thinking was increasingly marginalised in the Congress party. Gandhi saw that the aspirations of the Congress leadership were to be like the English rulers (without the Englishmen) — Gandhi, 1909: 26. He saw the growing gap between the leadership and the people (Gandhi, 2006: 154). In the post-independence period, these gaps have only grown. This is visible in the dichotomy between the expression of concern and the low priority accorded by the leadership to the removal of poverty or to the delivery of justice to the poor.

Presently, tens of millions of cases are stuck in the courts. A large number of poor undertrials languish in jails for periods far greater than the punishment they would have received if they had been prosecuted. In fact, a nation's attitude towards justice and its implementation reflects how it views its marginalised and, in India, the anti-poor stance stands out. The conditions in jails are uncivilised, because it is argued that the poor may prefer to go to jail rather than remain free and be hungry and deprived. The ruling elite, rather than putting in the maximum effort at eliminating the obviously grinding poverty all around, is constantly busy claiming that poverty is declining on the basis of technical grounds. Its space-time specificity is conveniently ignored (*see* Chapter X for a detailed discussion).

The failures of Indian leadership are also reflected in the failure of the leadership of the marginalised sections. For instance, feminist and Dalit leaderships need to share the blame with the mainstream Indian leadership, even if they are less to blame. These groups, sensitised to their marginalisation, should have evolved more democratic ideas and functioning than the mainstream leaders.

Unfortunately, these groups largely imitated the mainstream leaders and their methods. Their aspirations were to become like the latter. Women leaders have been aplenty in the South Asian subcontinent — Indira Gandhi, Benazir Bhutto, Sheikh Hasina, Sirimavo Bandaranaike and so on. These women, born with silver spoons in their mouths, did not have to struggle up from the grass roots and, therefore, largely reflected the consciousness of the families from which they emerged and the parties they headed. Therefore, they did not become the agents of change of the parameters of politics in the countries they ruled over long years. They were content to continue what they got from their families. Similarly, the Dalit leaders or the Muslim leaders have been happy to continue in the mould of the mainstream leaders.

They have not made that much of a difference to the lives of the people they are supposed to represent. Their party manifestos differ little from those of the other parties. Even their actions have differed little. They have hardly tried to give leadership to all marginalised sections, being content to be sectarian in approach. They have not moved quickly on aspects such as the right

to employment or giving quality education (the two things that could have made real changes in society) as they could very well have given their majority (along with other marginalised sections) in Parliament and legislatures. No new democratic agenda has emerged from these groups. Their leadership has been a part of the failure of the national leadership — reproducing the backward consciousness of the mainstream leadership.

Dalit leadership has complained that Gandhi did not look at their issues and represented only the upper caste elite. Hence they feel that British rule led to emancipation, which would not have come otherwise. However, what they do not understand is that the one-way globalisation and the Westernised attitudes of the ruling elite affect them more adversely than the upper castes have done (*see* Chapter VII). The argument that my enemy's enemy is my friend represents only a limited understanding. The issue is how to give leadership to all the marginalised sections and forge a unity amongst them to democratise the nation rapidly for the benefit of all.

In brief, even though the nationalists and the Nehruvians may argue that the direction the national movement took was the only feasible one given the circumstances, and criticism may hurt their sentiments, from an objective, long run point of view of the nation, Nehru's leadership was inappropriate for independent India. In Gandhi's terms, English rule continued without the Englishmen. But it must also be accepted as an objective factor that the prevailing national consciousness was backward and colonised not only during colonial rule but has remained so much after independence. Gandhi fought for an alternative, holistic vision but during his lifetime he could not build an alternative even amongst his own followers, the Gandhians.

5. Concept of Disruption of Indian Society

Colonised societies have been hegemonised by colonial powers which have determined much of their dynamics. These powers broke the existing social relations prevailing in the societies they colonised and replaced them with what they required for establishing and retaining control.

For instance, in India even though the pre-existing land relationships between the zamindar and the peasants were unequal, on the whole they nevertheless operated in the larger interest of the community. The colonial rulers strengthened the former and weakened the latter. The undemocratic features of the landlord class were strengthened so as to establish greater control for the rulers, to enable them to extract greater surplus from land. They did the same with willing kings and princes in different parts of India, who lent their support for controlling the population. This was mutually beneficial to both parties. The British also put into place a judicial system, a police and a bureaucracy to help them control the population. Any benefits from the setting

up of these institutions to the local population were incidental to the main purpose of control. This was a more generalised mechanism for establishing control than the one afforded by the co-option of kings, princes and the landlords.

The induction of the Indian elite by the British is well put in "Tolstoy's Letter" written in 1908 on a request for an article by Tarkanath Das for his monthly called *Free Hindustan*, and quoted in Gandhi (2006: 151-2), "A commercial company enslaved a nation comprising 200 million people! . . . What does it mean that 30,000 people, not athletes but rather weak and ill looking, have enslaved 200 millions of vigorous, clever, strong, freedom loving people? Do not the figures make it clear that not the English but the Indians have enslaved themselves?"

The relationship between the people and the rulers became even more undemocratic since the latter were only interested in exploiting the colony for the betterment of their own people. Unlike earlier when all interests in India were internal, the interests now became external. The British created a ruling elite in India which was subservient to their interests and rewarded them with a share in the fruits of this increased exploitation. The interest was not the development of their subjects. This also impacted the attitude of the Indian ruling elite towards the nation and its people.

The pre-existing relationships between society's different sections were destroyed deliberately, and this constituted a disruption in social relationships. Apart from disrupting the relations between the rulers and the ruled, the British, using divide and rule, accentuated pre-existing caste and community divisions. The existing heterogeneity in society was exploited to further divide people so that a society that had lived in relative peace began developing deep schisms. Divisions between the Hindus and the Muslims grew, and partition of the country was encouraged. As a result, relations between the two communities reached a boiling point at the precise time of gaining independence, resulting in a deep scar running through the hearts of the two newly-created nations. The people of these two nations, though from the same cultural and racial stock, continue to live in enmity with serious consequences.

The feudal attitudes that were deepened in society by the colonial masters have persisted after independence and left a large gap between the rulers and the ruled. This was sought to be countered during the national movement through various social and reformist movements but these were thwarted by the colonial power, which saw any such movement as an attack on its own rule. These movements remained weak since the leadership emerged largely from the elite sections whose consciousness was similar to that of the rulers. It is only the larger movement for independence, with its need for democratisation, that made some impact on this consciousness of the leadership. But even a tall leader like Gandhi could not substantially change it and

constantly struggled against the elitist tendencies and the narrow attitudes of the leadership.

Various social groups vied for the attention of the rulers and sought their indulgence for furthering their interests. Inevitably, society was viewed through the interest of the colonial power, as indeed was the history of the land. In the post-colonial period, the entrenched feudal attitudes in society have made the task of enlarging democratic consciousness extremely difficult.

In this sense, all colonised societies may be characterised as "disrupted societies" that continue to suffer the effects of colonisation well after the colonising power grants them independence.

The disruption of India as a colonised society has various elements that have been discussed in this chapter. These may be listed as:

1. Loss of value of ideas in society and the imposition of the notion that the West was modern and therefore superior, while what was indigenous was backward and to be discarded. Solutions were imported, and Indian intellectuals largely recycled Western ideas. All this resulted in a long lasting dependency in the nation and weakened its internal dynamism and this persists substantially even in the present.
2. The strengthening of the feudal relations between the Indian ruling elite and the people, and the creation of a large gap between the elite and the poor.
3. Lack of accountability of the rulers to the local population, and its undemocratic functioning.
4. Emergence of the nationalist leadership from amongst the elite and the vested interests that were inherently self-serving and feudal in their make-up and aspired to rule rather than serve the people.
5. The rupture of the social interlinkages, especially those of the elite with the rest. They were mediated more and more through the external — through the outside world, the colonial power. For instance, the intellectuals got linked to Western thought and progressively delinked from Indian sources. Also, the Westernised elite got delinked from the Indian people while the landlords became subservient to the British interests, and helped control the indigenous population.
6. Borrowing of non-solutions and their implementation without much thought to relevance to either the Indian context or the stage of development in the country.
7. The (setback to agriculture, industry, education (especially, research and S&T) and the draining off of the surplus from the villages and leaving them backward.)

8. The creation of the psychology of dependence amongst the Indian elite, especially the businessmen.
9. The breaking up of the country into two parts that were economically complementary to each other leading to severe economic problems. The poor relations between the newly created neighbouring nations resulted in serious political problems.

Given these forms of disruption, democratic relations in India were difficult to re-establish immediately after independence. While the national movement led to a degree of democratisation of Indian society, it did not penetrate deep enough to spread to the entire population. A majority of the Indian people did not believe that they could be masters of their own destiny, or that they could choose their leaders to take them on a democratic path.

Most of the leadership was from amongst the elite, the propertied, and from amongst those with a feudal mould. These sections remained under the British influence directly or indirectly. They thought of the possibility of an independent path of development for India as being limited, and considered a path of limited independence as an independent one. When they adopted the Western path of modernity and development, namely the path of a mixed economy, they took it to be an independent path. This path was a "top down" path and hardly the path of independent development that Gandhi had believed in.

The above mentioned features lie at the root of the post-independence problems discussed in the next few chapters, such as the failure of the post-independence path(s) of development, the decline in the quality of leadership, continuing backwardness of society, continuing poverty.

This is not to argue that all the blame lies with colonial rule and none with the Indians but only to suggest that the roots of the problems can be traced to the colonial phase and the inability of the Indian leadership to see this and break free from its shackles. As Tolstoy said, it is not that the British ruled India but that Indians allowed it to happen. If we still do not see this, the fault is entirely ours and not of the outsiders.

6. Link with the Post-Independence Period

Post-independence, the reconstruction of a disrupted Indian society has had to be carried out in the face of adversity of two hundred years that had substantially killed the society's dynamism. The problems were further compounded by the cold war that enveloped the world soon after the end of the Second World War. There were tremendous pressures on the newly-independent nations of the developing world to ally with one or the other power. It is not that the colonial powers would not have pressurised the

newly-free nations if the Soviet Union had not existed. They would have, but perhaps differently, since the fear of the developing world turning communist would have been less acute and the exploitation might have been easier and greater. Whatever dynamism the developing world gained during the national movements came under severe challenge due to the pressures from the far more powerful and better-established social structures of the developed world.

The most important disruption of Indian society was a result of the education policy piloted by Macaulay and its implementation during the British Raj. Its impact continued during the post-independence period since the education policy and structures — and their impact on the Indian ruling elite — remained substantially unchanged in spite of other big changes (*see* Chapter XI). The inevitable result was the continued choking up of dynamism in society and the resulting weaknesses in its functioning. A Westernised elite emerged that had limited value for independent indigenous ideas since it believed that progress simply consisted of copying Western modernity. It was awed by the progress of the West and was willing to accept it voluntarily — no coercion was necessary. Self-respect was not seen to be compromised when ideas were borrowed, or when one basked in reflected glory.

The weaknesses of the Indian leadership and its rapid deterioration soon after independence may be traced to this feature. The leadership became increasingly self-centred and short termist. This is reflected in its neglect of children's education and health which determines the long run dynamism of society (more in Chapter XI). The declining quality of leadership reflected itself in the all-round decline in society. For example, it resulted in the vicious circle of the growth of the black economy and disruptions in social functioning (Chapter VIII). In brief, the black economy and disruption in society have mutually reinforced each other.

The strengthening of the zamindari system and the feudal values by the Raj for purposes of control over the population made the rapid spread of democratic values in the post-independence period difficult. India suffered from the poverty of the mind and the consequent loss of dynamism, which is the real cause of the country's continuing poverty. These factors have prevented the ruling elite from thinking of poverty as the most critical problem confronting society. The Indian elite, enamoured of the West, imported non-solutions, without questioning them. Even as more problems arose as a result of this, there was no rethink. The different contexts of the two kinds of societies, and their different stages of development, were hardly thought to be relevant factors. This aggravated the problems confronting Indian society.

Chapter III

Some Key Developments in India since Independence

1. The Continuation of Disruption in Post-Independence India

Once a colony attains independence can its disruption (Chapter II) automatically end as if with the wave of a magic wand *see*? This would be an ahistorical view since disruption of society may continue for a while and affect its dynamics. In the Indian context, the weak national leadership, backwardness of its education and economic structures, deep-seated mutual suspicions amongst the social groups, the feudal consciousness of the rulers and the ruled and the role of the bureaucracy and the police as instruments of control of the population have persisted after independence. All this could have changed had a radically new national perspective emerged. But as discussed in the previous chapter, the British granted freedom and left behind a leadership which had voluntarily accepted its perspective on the direction society needed to take.

This weakness of the leadership led both to its over-dependence on the colonial institutions, like the civil service which it characterised as the "steel frame" of India, and to the decline in its quality so soon after independence. The result was the growing alienation in society, a widening gap between the people and the elite leadership and finally the difficulty faced by democracy in rapidly penetrating into the social structures. Further, the relations with the country's neighbours have been shaped by the doctrines developed during the colonial period and this has adversely affected the entire South Asian sub-continent.

The national movement promoted democratic aspirations thus helping reduce the extent of disruption but it was unable to alter the basic attitudes that had taken roots in the population over a couple of centuries. The struggle for independence neither lasted long enough nor got deeply enough entrenched to transform that. Many amongst the leadership held a feudal attitude and sought to grab power in order to rule. They did not aspire to serve the people and, as Gandhi feared, there would be English rule without the Englishmen

(Gandhi, 2006). They wished to be more successful rulers than the British, but without changing the frame of thinking or the instrumentalities created by them. In this sense, disruption continued after independence because thinking was not liberated.

This disruption which was embedded in the economic and social aspects of the Indian society at the time of independence had got ingrained in its institutions and was, therefore, not easy to reverse. As a result it has persisted long after political independence was achieved. A dynamic society can overcome its handicaps but the decline in the dynamism of society undermines a society's capacity to overcome its disruption. The decline is associated with loss of value of ideas which undermines knowledge generation and legitimises copying from outside which reduces the country's capacity to generate relevant knowledge for its own development (*see* Chapter XI).

The colonial rule established its superiority in the minds of the Indian ruling elite and led them to borrow Western ideas and discount local ones. This is not peculiar to India but to the entire developing world. Indian intellectuals have been reduced largely to becoming "derived intellectuals" working within the paradigm of the Western ideas. Often they have not been able to absorb them and innovate on them in the Indian context. They have mostly viewed India through Western prisms so that it has been easy to accept Western solutions even if these have not been successful in the original Western context and have resulted in problems there. Consequently, these are even less likely to succeed in the Indian milieu which is still very different from the Western context. Thus, we have lurched from one set of problems to the other, compounded mistakes and made the situation more complex so that they seem to defy solutions. When something new is suggested, leaders often ask where else has it been tried as if India cannot be the first to try out new things. This reflects a bankruptcy of the leadership and a marginalisation of the independent intellectuals. The lesson to others is that success requires recycling ideas, especially, from the West.

The model of development adopted by the leadership of independent India was copied from the West. There was little attempt to formulate an Indian vision of modernity based on our own perceptions of our problems and strengths. Most in the ruling elite were willing to follow someone else's ideology / line — whether from the Soviet Bloc or the US-led bloc. A fringe followed the Chinese line also. The Indian intellectuals easily accepted borrowing thought since they had emerged largely from the system of education which was influenced by the West. The dominant view amongst policy makers was that India could easily imitate the Western path of development and jump the various stages of development and evolution through which the West had transited during its learning curve and social development. This is characterised as an "advantage of a late start" since the path is neatly laid out

and there is minimum risk. This is discussed in Chapter XI and it is argued that most of the developing world, including India, suffered from the "disadvantage of a late start".

The leadership was in a hurry to board the fast-moving bus of modernity, at any cost. Hence, they came up with the self-serving notion of rapid economic growth, with little thought for distribution. The ruling elite saw this as the only way to reach the levels of consumption in the advanced Western nations. In their reckoning, the marginalisation of the rest and their slow development through trickle-down was immaterial.

These weaknesses of the national leadership are manifested in the way the institutions of higher learning (the most dynamic component of society) have been treated. Science and technology has been largely borrowed and relevant indigenous applications have been few and far in between. Institutions of higher learning have been bypassed and given a low priority and researchers have low social prestige. These institutions and their faculties have felt largely socially irrelevant so that they function almost like offices and bureaucrats — 9 a.m. to 5 p.m. Students are largely alienated (as Gandhi noted) because of the large gap between their life experience and what they are insipidly taught, so that learning has been at a discount. The books available to them are "cut and paste" jobs unimaginatively carried out with the object of enabling the students to pass formal examinations. These institutions often serve little purpose other than of granting formal degrees that prove to be worthless (For a more detailed discussion *see* Chapter XI). Consequently, degrees can be granted for political or monetary consideration — no relationship with learning is required.

With these general considerations in mind the following sections present the key social, political, economic and international developments in the post-independence India. The choice of events presented below is dictated by the desire to illustrate the continuing impact of colonial disruption on developments in India. For ease of presentation and not because there is anything special about the start of decades, the narrative is decade-wise.

2. The 1950s: Setting up the Developmental Structures

Independence aroused considerable hope of rapid social change and economic development. The yoke of 200 years of colonial rule plagued the nation in every way — illiteracy, poverty, weakness in agriculture, industry and infrastructure. New problems such as partition were added. There was mass migration of population and communal violence. The complementarity between the two newly created nations was lost. For instance, irrigated areas went to Pakistan while most drought prone areas came India's way (Sridhar, 2008:22). This aggravated the existing food problems which had resulted in

malnourishment and poverty. In 1949, a food plan was created to achieve self reliance but this did not succeed. New problems arose due to the complex international setting in the post-Second World War period with the emergence of two ideologically opposed blocs and the Cold War between them. Above all, there was the challenge of governance. The new nation went about the task of boldly facing the challenges and setting up the edifice of social, political and economic development. Most of this task was accomplished in the 1950s.

2.1 The Centrality of the Role of the State

The basis of rapid social change was modernisation and the elite aspired to catch up with the West — by copying its model of development. The Indian elite which provided much of the leadership in the fight for independence was Western trained, directly or indirectly. Many returned with degrees obtained from Western institutions and they brought with them the notion of Western modernity and its way of thinking. They influenced others who did not go abroad but studied locally. Given the poverty and the crisis in the nation, indigenous ideas and institutions appeared to be backward and the elite groups wanted to replace them with borrowed ideas and institutions. The thought that they could be evolved in a holistic way to suit the Indian needs, to create an Indian version of modernity, hardly crossed their minds. Except for the Gandhians, no one else was thinking independently.

This elite view of social change was moderated somewhat and the leadership open to democratising influences since the wider struggle against the British involved the common people and for whom, removal of poverty, illiteracy and ill health was important. The leadership did not see in this any contradiction with its goal of modernisation. They also wanted these problems to be tackled rapidly so that the nation could overcome the image of being impoverished and backward. The national movement identified the cause of these problems as the colonial rule and to them freedom meant elimination of these ills. However, due to its Western orientation, it wanted to tackle these problems through modernisation imported from the West rather than through evolving indigenous means (as suggested by Gandhi).

The Constitution adopted in 1950 contained the framework for the nation's functioning. It was drafted and approved by the Constituent Assembly, which had been elected in 1946 on the basis of limited franchise, by the propertied. Consequently, the consciousness of the drafters of the Constitution was that of the propertied classes. The democratising influence of the national movement moderated this and the task they set for independent India was that of achieving a civilised and democratic society. Unfortunately, the framework was not based on India's own needs but borrowed from the

various existing Constitutions of the Western nations — Britain, USA, France, Soviet Union and so on. It was (perhaps rightly) felt that one could learn from what had worked for other nations and there was no need to reinvent the wheel.

However, borrowed social ideas can lead to problems when implanted in a different setting. No wonder, the Indian Constitution has had to undergo over a hundred amendments in the past sixty years whereas the US Constitution has undergone only twenty seven over more than two centuries. In the US, the first ten were approved on the same day, 15 December, 1791 and are collectively called the Bill of Rights. Further, the eighteenth amendment introducing prohibition was repealed by the 21st. The problems in India have arisen since the implementation of progressive legislation has been poor given the social opposition and poor governance due to a large and growing black economy. Further, society has undergone rapid changes so that many of the problems could not be anticipated and provisions were not made for such contingencies. All this reflects the nation's weakness in understanding and defining its own needs so that basic changes have repeatedly become necessary — our fixed points were not properly defined to begin with.

To give democratic representation to people and empower them, the Election Commission was set up in 1950 and the first elections were held in 1951-52. This was the beginning of Parliamentary democracy in independent India. Unfortunately, with a strong feudal consciousness in general and especially in the leadership, Gandhi's critique of British Parliamentary Democracy in *Hind Swaraj* (Gandhi, 1909) applied with even greater force. He argued that the Prime Minister and the parliamentarians work in their own narrow self interest. The last six decades of developments in India show how true this is given the low democratic consciousness. During the campaign for the very first elections to various legislatures, the feudal hold in society was apparent. Most people believed that they could not elect their leaders and were guided by the local leaders, the zamindars, and so on. This has slowly changed over time but persists in different forms. Today the public elects those that belong to their groups, caste, community and region, even if they are corrupt and serving the vested interests, and not necessarily those who may work in the national interest. The public has become cynical and discounts the idea that anyone will work in the larger national interest resulting in a rise in sectarian politics to the detriment of the idea of the nation.

The role of colonisation in the creation of the poor social conditions was self evident to the nationalists and that is why they fought for freedom. This meant the acceptance of the idea that the cause of the people's problems was social and not individual. The latter could neither be held responsible for their woes nor could overcome them on their own. Backwardness of the country was seen to be systemic so that society alone could overcome it.

In independent India, society accepted its role in eliminating the degrading conditions prevailing in the country and the state became the instrumentality to help overcome them in the shortest possible time so that planning became essential. The rapid strides taken by the Soviets using central planning presented a model which India adopted. Further, since the national movement was based on sacrifice of one's individual interest to fight the British, minimisation of consumption became an accepted precept of post-independent India. This was reinforced by Gandhi's personal example of living frugally (like, the poorest) and his espousal of the idea of voluntary poverty. The elite observed austerity in public but privately many of them continued their lives of luxury. Over time, as the force of the national movement weakened, this hypocracy turned into consumerism which largely transformed the philosophy developed during the national movement and worked to the detriment of the marginalised sections (*see* Chapter X).

India's development strategy was designed in the Fifties to attain Western modernity in the shortest time. It was assumed that benefits would trickle down to the poor. This was supported by Western models of development, like the earliest one due to Lewis (1954) which suggested a top down approach. Gandhi's independent strategy was based on development from below but had been rejected even before independence and there was no question of returning to it in independent India. Such a strategy would have slowed down the elite section's rapid modernisation and their catching up with the West. Under such a strategy, they would have been the marginals and not the poor (as was the case under modernisation based on trickle down). A charitable interpretation may be that the leadership was naive but this was also convenient given its self-serving character with its own interest taking precedence over the national interest.

The elite under the influence of Western modernity saw two available paths of Western development. One, the free market model available in West Europe and USA and the other, the Soviet path of planned development. The genius of the Indian leadership lay in its adoption of these twin paths of Western modernity under the rubric of mixed economy. This created the image of Indian leadership being independent.

The ground for such a strategy had been prepared earlier by the leading industrialists of India in 1944 in the popularly called "Bombay Plan". They suggested the need for a public sector to promote the growth of the private sector which needed infrastructure for its expansion but itself did not have the capital required for the purpose. They also wanted infrastructure to be cheap so that they could have high profitability which could help them rapidly accumulate capital. Further, they realised that typically infrastructure involved long gestation and if they invested in such projects, they would have to wait a long time to make a profit and this would slow down their

growth. Thus, it suited them to have a large public sector to support their development. Hence, while in principle they could have opposed the public sector as capitalists elsewhere did since it can potentially check their expansion they saw enough benefits for themselves that they supported the mixed economy path. In the period immediately after independence when they were small in size and unable to compete globally, they did not see this as a limitation. Due to these reasons there was more or less a consensus in the national leadership over the mixed economy model. The industrial policy resolution (1956) gave a role to both the public and the private sectors.

It was much later that Indian big business started seeing the public sector as an impediment to its growth. However, even then it served a strategic purpose, namely an inefficient public sector was the best advertisement against nationalisation. Further, it could be manipulated to allow the private sector to have subsidised and cheap infrastructure for its own increased profitability.

India embarked on the path of planning with Five Year Plans. The main goal was rapid industrialisation and self-sufficiency, based on heavy industries and development of social and physical infrastructure. This was projected as a strategy for attaining independent development. Steel plants, machine tools production, heavy engineering, and so on, were the focus of development. As a part of the top down development strategy, surpluses from agriculture were used for capital formation.

In the pre-independence period, the princes and the zamindars in rural India were seen to be the collaborators of the British (with some exceptions), helping them to perpetuate the colonial rule. Thus, the national movement did not view these groups with favour. It was argued that if agriculture had to contribute to larger surpluses, then it had to overthrow the yoke of the zamindars who in typical feudal style were preventing its transformation into capitalist agriculture with technological dynamism.

Thus, even though it was the largest sector of the economy with a vast majority of people dependent on it, it got proportionately less resources for its development. Zamindari was abolished in 1956 as both a symbol of modernisation and for the generation of greater surpluses. It was believed that as land goes to the actual tillers, there would be technical change and more work effort would be put in so that agricultural production would rise and surplus generation would be accelerated. In 1956 Vinoba Bhave launched the Bhoodan movement under which those with excess land voluntarily give it up for distribution to the landless. This was a Gandhian way of resolving problems but had limited success. In 1952, Community Development Programme was launched to help build rural societies. To modernise agriculture, Indian Agricultural Research Institute (IARI) and Agricultural Universities were set up for training and research.

As an adjunct to modernisation, it was felt that education and specially scientific and technical education had to be expanded. A large number of schools, colleges and universities were set up in the post-independence period. S. Radhakrishnan headed a committee in 1948 to recommend an Education Policy for the country. To promote research and technological development, research institutes were set up under the CSIR (1952), Atomic Energy Commission (1948), Indian National Committee for Space Research (INCOSPAR) in 1962 and so on. The setting up of CSIR laboratories outside the universities was seen by the perceptive as undermining the latter since they would drain the resources and draw away talent. It was argued that consequently the basic training of students would suffer (Kumar, 2006). But Indian leadership thought of this as a shortcut to rapid modernisation since the universities would not be able to deliver quickly. But as often happens, "haste makes waste" and the large number of universities and colleges set up could not achieve their potential. The research laboratories patterned after Western institutes also failed to deliver since they lacked the culture of research and became bureaucratised. Copying of institutions also led to copying of ideas. Thus, India with little independent experience of how to promote research ended up with the worst of both the worlds by failing to focus on indigenous ideas and relevant research and did a poor job of even copying the West. The result was that its vast infrastructure of institutions of higher learning failed in their primary task of generating new knowledge at the cutting edge (with few exceptions).

A Scientific Policy resolution (1958) was approved as the basis of creating not only a scientific temper in the country but to accelerate research in basic sciences. However, the dilemma between going for indigenous ideas and copying the West has led to failures in policy and to its being buffeted by repeated changes so that the country has not had a stable S&T policy. Such uncertainties in the S&T policy framework are inimical to R&D. It is recognised the world over that R&D is the most risky investment and unstable policies add to the risk discouraging private effort in R&D. In India, given the gap with the advanced countries, the risk was anyway great so the private sector was disinclined to invest in it and mostly imported technology. The burden of development of technology has mostly been borne by the public sector whether in industry or in institutions of higher learning. The end result has been that the country continues to depend on the advanced nations. As discussed in Chapter XI, this is a failure of the national leadership which has lacked a clear vision so that it has often undermined the effort of researchers.

2.2 International Political Implications of the Development Path

India's experience with Western colonialism and imperialism made it suspicious of Western intentions. Consequently, there was a desire to be self reliant and free of Western political domination (even if achieving Western modernity was a goal) since that would invariably lead to economic and other domination. The contradiction between copying Western modernity and being politically independent of the West was not apparent to the leadership.

The complicated situation that emerged after the Second World War with two ideological blocs competing with each other at one level made things difficult but at another level helped the leadership in carrying forward its illusion of political independence. The Western powers led by the USA tried to encircle the communist bloc by creating regional military and economic alliances — NATO in Europe and SEATO and CENTO in Asia. Pressure was exerted on India to join the latter two blocs but the suspicion of the West helped the leadership to decide to stay clear of these alliances.

The country embarked on a "mixed economy" path and obtained assistance from the two contending Western blocs — the capitalist and the communist — by going in for non-alignment which implied equidistance from both. This enabled the country to benefit by obtaining technology and aid from both. The West did not like this and the US constantly pushed India to accept its hegemony but the existence of the USSR prevented it from pushing India too hard lest it move closer to the latter. This was also the situation for many other developing countries. The newly independent countries also felt that they needed to get together to ward off the pressures from the two blocks so the principles of peaceful coexistence between nations was enunciated under the Panch Sheel Agreement in 1954. China and India led the movement. Later, the non-aligned movement was launched in 1961.

The success of this policy of equidistance was visible in the setting up of the steel plants. One plant each was promised by the USA, Germany, England and Soviet Union. The USA was to set up the Bokaro steel plant but at the last minute the US Congress refused to give assistance for public sector plants so it was set up with Soviet help. Similarly, the IITs were set up by the four powers — Soviets, Germans, British and the USA.

The Western nations came up with the strategy of giving aid to the developing countries — the former colonies — ostensibly to help them but in reality it was a mechanism of maintaining control over their former colonies. The USA did not have any colonies but emerged as a super power after the Second World War with global interests and wanted hegemony over the world — both in ideas and control over resources. To achieve these ends, it initiated a large programme of aid to the developing world. For instance, it

initiated the PL 480 programme to provide food aid and India became the largest recipient under it starting with the drought of 1956. The Soviet bloc countered this with its own aid programme. They showed willingness to provide technology which the Western bloc was not willing to do. They aided national movements in countries struggling against colonial rule or dictatorships and drew closer to the newly independent countries. They also gave military aid to some nations to loosen the grip of the West. Vietnam was an important example of aid to a national movement by both the Chinese and the Soviets. In India's case, the Soviet Union became the largest provider of military hardware by the mid sixties. Egypt also drew close to the Soviets after the Western powers stopped aid to Aswan dam in 1956. This was followed by the nationalisation of the strategic Suez Canal and the attack by Israel, France and Britain to capture territory around the Suez Canal.

Developmental aid to the newly independent countries by the West was not patterned after the Marshall Plan given to Europe and Japan after the Second World War. That aid was for reconstruction of the War devastated economies so that these nations could become powerful allies against the growing worldwide communist influence and to prevent them from turning communist. There was a threat from the large communist parties in the Western bloc, like in Italy and France. In the case of the developing countries, the strategy was to keep them under Western control and not let them become independent. So, transfer of technology was not on the agenda but it is also true that given their backwardness these countries could not have absorbed advanced technology. India's own experience suggests that it struggled to absorb modern technology in the fifties and the sixties. Be that as it may, aid came with strings and served the dual purpose of creating markets for the aid giver and provided an instrument of political control.

The Western powers backed some of the most regressive regimes in the developing world. The USA did not allow anyone to intervene in Latin America and supported dictatorships, like, Pinochet in Chile (which decimated the entire opposition). Cuba was blockaded to prevent the Soviets from extending their influence whereas the USA had the Soviet Union and the China encircled. In Indonesia, Sukarno was dethroned and Suharto was brought in and the active communist movement there was eliminated. The most corrupt regime of Marcos was supported in the Philippines. Closer home, military dictatorships were supported in Pakistan to keep control over that country. In Iran, the elected government was overthrown and the Shah of Iran installed. Divisions were created in the Arab world to keep control over oil resources. Israel became the instrument of control in that part of the world and turned the area into a flash point since then. In Africa, too the worst kind of interference was practiced. Apartheid continued in South Africa till the early 1990s largely because of explicit and implicit Western

backing to one of the worst regimes in the world. Problems due to Western interference in, say, Nigeria, Ethiopia, Congo, Iran and Egypt have been well documented.

The communist bloc ran into problems with the growing differences between the Chinese and the Soviets from the mid-fifties. This brought the Soviets closer to India. Strategic alliances emerged wherein India drew closer to the Soviets and the Western powers to Pakistan. India viewed the large amount of Western aid to Pakistan as going against its interests.. China also had border disputes with both the Soviets and India and this drew the latter two closer to each other. So, Pakistan strategically allied with the Chinese to counter India. In brief, in the fifties, the alliances — India-Soviet Union, China-Pakistan and the West-Pakistan — fundamentally impacting the South Asian sub-continent were formed and they affected development(s) in India over the next forty years. President (General) Eisenhower who understood military matters well having led the Allied forces in the Second World War, had said in 1959, a little before completing his second term as President of USA, that America is ruled by the Military Industrial complex. He could by no stretch of imagination be termed a woolly headed peacenik but stated:

> "Every gun that is made, every warship launched, every rocket fired signifies — in the final sense — a theft from those who hunger and are not fed, those who are cold and are not clothed. This world in arms is not spending money alone. It is spending the seat of its labourers, the genius of its scientists, the hopes of its children."

2.3 Relationship with Pakistan

Relations with Pakistan were poor right since Independence. The division of India was along communal lines and there was much bloodshed during the mass migration that followed partition. This has been one of the ugliest periods in the history of the Indian sub-continent with millions displaced on both sides and large numbers killed by rampaging mobs. Pakistan was created as a theocratic state while India was declared to be a secular state. There was little love lost between the rulers of the two nations. Kashmir became a bone of contention.

Pakistan had a divided territory between its East and West parts with the latter dominating over the new nation. Religion was not enough to keep the two parts together and Bengali sentiments were hurt by the domination of the Punjabis of the Western Pakistan so that the nation got divided into two with the emergence of Bangladesh in 1971, with help from India. This undermined the basis of Pakistan as a theocratic state. This once again high-

lighted the fact that the division of the country on communal lines was not such a good idea and Gandhi was correct to oppose it. The entire subcontinent has paid a heavy price for its division and all attempts at creating an environment for peaceful coexistence have failed till now since mutual suspicions are deep and certain foreign powers see any reconciliation as detrimental to their interest so prevent it from happening.

India absorbed Hyderabad on the grounds that the population was largely Hindu and the Nizam, the ruler, could not speak on their behalf. In the case of Kashmir where the position was the opposite with a majority Muslim population and a Hindu King, India took the opposite line. Pakistani forces in the garb of tribals invaded Kashmir to annex it and its ruler was forced to ask India for help. Indian forces rushed to help and barely saved the Kashmir valley from falling into the hands of the Pakistani forces.

Since that time, Kashmir has been a sore point between the two neighbours who could have been the best of friends belonging to the same racial stock and sharing a common history and culture. This has meant large troop concentrations on the borders between the two neighbours. It has also meant the draining of resources in the war effort and away from the developmental effort so desperately required by their poor populations. Political instabilities in Pakistan have meant that the army has ruled for much of the time. Its legitimacy with the Pakistani population has often depended on being seen as the defender against the Indian threat so that tensions with India have suited it. This state of affairs has also suited the interest of the USA and China who may have found a civilian government less amenable to their needs of domination over Pakistan and its use to harass India to keep it weak. The Kashmir issue has been handy to weaken India by making it divert resources to defense (*see* Table 3.1). Separatist movements in the North East and later in Punjab have also served the purpose of keeping India down.

The UN intervened in 1948 to stop the fighting and India offered to hold a referendum. A Line of Control (LOC) was established under UN supervision. Subsequently, for a variety of reasons, India has held elections but not a referendum. This has been used by the Western powers to continue their interference in Kashmir. It is the USSR that has saved the day for India in the UN by opposing Western designs. Nehru has been criticised by many for stopping the Indian army from first removing the Pakistani forces and then going for ceasefire. They argue that the existence of a Pakistani occupied Kashmir (POK) is handy for the Pakistanis to legitimately interfere in Kashmir.

Table 3.1

Military Expenditure of India

Year	Military Expenditure (₹ Crore)			Military Spending as a percentage of CGE	Military Spending as a percentage of GDP_{fc}
	Revenue A / C	Capital A / C	Total		
1950-51	164.13	4.19	168.32		
1951-52	170.96	—	170.96		
1952-53	179.52	—	179.52		
1953-54	186.30	—	186.30		
1954-55	186.66	—	186.66		
1955-56	172.23	—	172.23		
1956-57	192.15	—	192.15		
1957-58	256.72	—	256.72		
1958-59	250.93	—	250.93		
1959-60	242.68	—	242.68		
1960-61	247.55	33.89	281.44	13.52	1.48
1961-62	289.54	22.95	312.49	—	1.55
1962-63	—	—	0.00	—	1.62
1963-64	729.50	—	729.50	—	2.22
1964-65	738.52	122.58	861.10	—	2.89
1965-66	762.18	110.79	872.97	19.31	2.92
1966-67	797.80	106.22	904.02	—	2.63
1967-68	862.21	104.14	966.35	—	2.32
1968-69	929.05	125.42	1,054.47	—	2.76
1969-70	965.64	135.24	1,100.88	—	2.62
1970-71	1,051.46	147.83	1,199.29	21.34	2.79
1971-72	1,346.83	178.51	1,525.34	22.14	3.34
1972-73	1,439.36	212.86	1,652.22	21.03	3.28
1973-74	1,480.97	199.83	1,680.80	20.46	2.73
1974-75	1,920.21	192.06	2,112.27	21.26	2.91
1975-76	2,251.14	221.15	2,472.29	19.97	3.21
1976-77	2,347.20	215.34	2,562.54	18.76	3.09
1977-78	2,385.94	247.70	2,633.64	16.99	2.79
1978-79	2,613.90	253.73	2,867.63	15.28	2.82
1979-80	3,093.61	262.03	3,355.64	17.70	3.03
1980-81	3,540.38	326.39	3,866.77	15.83	2.72
1981-82	4,167.23	484.57	4,651.80	17.13	2.79
1982-83	7,881.73	526.57	8,408.30	16.31	2.90
1983-84	5,666.70	642.47	6,309.17	16.41	2.88
1984-85	6,399.25	736.76	7,136.01	16.18	3.10
1985-86	7,752.01	967.36	8,719.37	15.17	3.14
1986-87	9,868.00	1,298.49	11,166.49	16.65	3.69
1987-88	10,074.66	3,107.63	13,182.29	17.53	3.72
1988-89	11,156.71	3,782.93	14,939.64	16.86	3.48

(Contd. . .)

Table 3.1 *(. . . contd)*

Year	Military Expenditure (₹ Crore)			Military Spending as a percentage of CGE	Military Spending as a percentage of GDP_{fc}
	Revenue A / C	Capital A / C	Total		
1989-90	11,871.61	4,228.33	16,099.94	15.52	3.26
1990-91	10,874.12	4,552.35	15,426.47	14.65	3.00
1991-92	11,141.62	4,905.43	16,047.05	14.67	2.75
1992-93	12,108.49	5,473.30	17,581.79	14.34	2.58
1993-94	14,977.33	6,867.39	21,844.72	15.40	2.76
1994-95	16,426.01	6,819.42	23,245.43	14.46	2.51
1995-96	18,841.17	8,015.05	26,856.22	15.06	2.48
1996-97	20,996.70	8,508.42	29,505.12	14.68	2.34
1997-98	26,174.57	9,103.51	35,278.08	15.20	2.52
1998-99	29,861.64	10,035.94	39,897.58	14.28	2.47
1999-2000	35,215.94	11,854.85	47,070.79	15.79	2.63
2000-01	37,237.99	12,384.05	49,622.04	15.24	2.58
2001-02	38,058.83	16,206.91	54,265.74	14.98	2.59
2002-03	40,708.98	14,952.85	55,661.83	13.47	2.46
2003-04	43,203.19	16,862.61	60,065.80	12.75	2.37
2004-05	43,862.11	31,993.80	75,855.91	15.22	2.64
2005-06	48,211.11	32,337.87	80,548.98	15.91	2.46
2006-07	51,542.00	34,458.00	86,000.00	14.79	2.27
2007-08	54,078.00	41,922.00	96,000.00	14.99	—
2008-09	—	—	1,05,600.00	—	—
2009-10	—	—	1,41,703.00	—	—

(Source: From Central Budget, Various Issues and *Indian Public Finance Statistics and Economic Survey*, Various Issues.)

The interference by elements in Pakistan in the various separatist and terrorist movements in India and its use of other nations of South Asia to foment / create problems has added to the difficulties in governance in India in an already complex situation. It is not that India has been an honest broker in South Asia. Its "big brotherly" attitude and "interference" in the affairs of its neighbours has been resented and reflects a throwback to the colonial past.

In brief, creation of Pakistan has seriously impacted developments in India because of the hostilities between the two nations, the loss of economic complementarities, the interference by the former in Kashmir and its support to the various terrorist and separatist movements in India. India has failed to create a new anti-imperialist milieu in the South Asian sub-continent and must share a large part of the blame.

2.4 Economic Aspects

In 1947, India was backward with poor infrastructure and uncivilised conditions of existence for a vast number of people (*see* Chapter IX). The population was largely poor with low per capita consumption of food, widespread illiteracy and so on. As argued in Chapter II, it had been impoverished over two centuries of colonial rule. It was predominantly agricultural with little of modern industry (*see* Table 1.1). Its exports consisted of primary commodities and little of manufactures.

India began to face balance of payment problems as it started to industrialise in the mid-fifties and for which it had to import technology. It could not increase exports rapidly due to technological backwardness. The "export led" strategy was ruled out due to "export pessimism". It had to restrict imports to conserve foreign exchange and moved towards an "import substitution" strategy. The emphasis was on the internal market and not on the external one. While exporting primary goods cheaply and importing sophisticated goods at high prices for long periods during the colonial period, it realised that it had been exploited; this was sought to be minimised by going for self-sufficiency. The strategy required rapid development of science and technology but India could not achieve this (Chapter XI) and, therefore, problems mounted over time and the economy did not modernise as rapidly as it was supposed to.

It was a failure of the leadership with its Western orientation that it could not rapidly build economic relationships with other newly independent developing countries. Hence, it could not become independent of the colonial powers. It is not that India and its PM, Nehru, did not try; there were plenty of initiatives but perhaps a radically different approach and a clarity of thought were needed. The yoke of modernity biased us into continuing to depend on the West in a big way. The fault for lack of a new direction has to be also shared by the other countries who were equally under the same influence and also could not break out of the Western hold. However, what India could have done as a large country could not have been as easily done by other smaller formerly colonised nations. Further, the intellectual lead India gave in the 1950s due to its having created a strong anti-imperialist national movement was acceptable to many other nations across the world. For these reasons that the failure of the Indian leadership is larger than that of the leadership of other newly independent nations.

The mixed economy path amalgamating the two available paths of Western development promoted both the private and the public sectors with the "commanding heights" assigned to the public sector. As intended, it helped the growth of the private sector through the promotion of cheap infrastructure and capital intensive industries (*see* Chapter V). Indeed that worked

well for Indian businesses and they grew rapidly. Lohia criticised Nehru saying that his socialistic pretensions were not in evidence since the monopoly houses were prospering while poverty continued as it was and the gap between the rich and the poor was growing.

Central planning was introduced as a mechanism for optimum utilisation of the scarce resources of the country so that per capita income could be increased rapidly, poverty reduced in the shortest possible time and self-sustaining growth achieved. According to Wadhva (1977:3), "the Government of India realised the need for conscious and deliberate efforts to break the 'vicious circle of poverty' by planning for the economic development of the country."

The Planning Commission was set up in March 1950 for this purpose. The First Plan was initiated in 1951 and the second in 1956. Planning was a mechanism for modernising the country rapidly. As a part of this strategy, India went in for heavy industries and technology development in the public sector. This was also supported by the Indian industrialists (see Section 2.1 above).

Under this strategy, the leadership initiated large projects — dams, factories, power plants, new institutions, industrial parks, and so on — and Nehru characterised them as "temples of modern India". As a result, other possibilities were ignored, such as small irrigation and water harvesting. Similarly, instead of exploring cheaper energy options, the country spent massive amounts on nuclear research for power generation. However, this was partly dictated by India's perceived military needs of developing its nuclear capability.

The strategy of going for large projects resulted in displacement but there was little protest then, unlike now. There was acceptance that it was for the good of the nation. Alternate land was available for allotment to the displaced. Little thought was given to the long run consequences, such as environmental impact. It turned out that those who benefited were different than the ones displaced and who received little by way of trickle down.

The public sector as an instrument of independent development suffered from a lack of clarity of vision so that it faced growing corruption and problems associated with bureaucratic control and slow decision making. The mindset of the leadership and public sector managers was not only feudal, it was also not very different from that of the private sector managers so that they could not create a different ethos which was needed for optimal functioning. Not only the public sector not run on commercial lines it was also increasingly exploited for personal gains (make money, give jobs, and so on) and there was little accountability to the public, something that could have checked the irregularities. The result was that the public sector generated little surplus for reinvestment and lacked dynamism. The public increasingly came to view it as an inefficient and lumbering giant.

Development was overwhelmingly based on industrialisation and modernisation so that over time agriculture became a marginal sector with its share in GDP declining rapidly. During this period, agricultural growth depended largely on expansion of area under crops and not on increase in yield (productivity of land). Irrigation expanded slowly since it depended on mega projects which required huge investments and took a long time to come to fruition. Consequently, the dependence of agriculture on monsoons remained strong. The first major drought in the fifties occurred in 1956-57 and led to a sharp increase in prices.

Agriculture, the dominant sector of the economy, was treated as a poor cousin of non-agriculture, so resources were drawn from it for investments in the latter. This was similar to the drain of surplus by the British from India. The difference being that capital did not leave the Indian shores but this also changed later as Indian businessmen resorted to flight of capital. The rural areas dominated by agriculture were considered to be backward and accorded a low priority compared to urban areas. So, they lagged behind in terms of development of infrastructure, such as roads, electricity and drinking water. Low investment also resulted in low employment generation in rural areas. The differential in development and the lack of jobs led to under employment in rural areas and growing migration to urban areas. The resulting growth in urbanisation which requires expensive infrastructure led to growing shortage of resources for the rural areas (*see* Chapter IX). Consequently, a vicious cycle of increasing differentiation between rural and urban areas was set in motion by the strategy of top down development based on copying Western modernity.

It was realised that small scale and cottage sector cannot compete with the large scale sector for a variety of reasons, such as its access to capital, technology, markets, and so on. Further, people employed in these sectors lack the skill to shift to other jobs so their closure would result in large scale unemployment. Thus, it was accepted that the small and cottage sector needed protection via reservation and tax concessions.

In the modern sectors, implementation of planning required licensing to prevent over capacity and optimal utilisation of resources. This also enabled the government to check the emergence of monopolies which would have been detrimental to the public interest. However, given the political influence wielded by big businessmen and their resort to growing corruption, not only new monopolies emerged but the existing ones got strengthened over time. Only in those areas where the public sector had its presence, such as steel, bulk drugs and so on, the private monopolies were checked. In 1955, the State Bank of India and Oil and Natural Gas Directorate were set up in what were critical areas of banking and exploration for petroleum products.

Oil India was set up for refining and marketing of petro products in 1959. Air India and Indian Airlines came into being in 1953.

Self sufficiency was an important goal given the colonial experience. It was understood that economic dependence led to political weakness also. Given that industry was relatively backward due to its weaknesses in technology and the small size of the market so that scale economies could not be exploited, protection from foreign competition was granted to it. Thus, import of certain items was banned and high tariffs were imposed on many others. Protection resulted in a relatively closed economy and registered / organised Indian industry grew rapidly and started displacing the unregistered and small scale sectors (Table 3.2). Protection also reduced waste in

Table 3.2

Gross Value Added from Manufacturing at 1993-94 Prices

	(in ₹ Crore)			*(in %)*
Year	*Gross Value Added — Registered*	*Gross Value Added — Unregistered*	*Gross Value Added — Manufacturing Total*	*Ratio of Unregistered to Registered*
1950-51	6,122	6,339	12,491	103.54
1951-52	6,283	6,569	12,886	104.55
1952-53	6,312	6,974	13,334	110.49
1953-54	6,590	7,710	14,366	117.00
1954-55	7,324	7,997	15,373	109.19
1955-56	8,221	8,321	16,577	101.22
1956-57	9,137	8,667	17,821	94.86
1957-58	9,564	8,931	18,508	93.38
1958-59	9,839	9,559	19,425	97.15
1959-60	10,832	9,905	20,744	91.44
1960-61	12,122	10,308	22,465	85.04
1961-62	13,228	11,121	24383	84.07
1962-63	14,517	11,625	26,158	80.08
1963-64	16,159	12,472	28,632	77.18
1964-65	17,492	13,132	30,612	75.07
1965-66	18,066	12,868	30,897	71.23
1966-67	18,082	13,088	31,140	72.38
1967-68	17,492	13,757	31,260	78.65
1968-69	18,675	14,318	32,992	76.67
1969-70	21,919	14,692	36,531	67.03
1970-71	22,441	14,989	37,389	66.79

(Contd. . .)

Table 3.2 *(. . .contd)*

Year	*Gross Value Added — Registered*	*Gross Value Added — Unregistered*	*Gross Value Added — Manufacturing Total*	*Ratio of Unregistered to Registered*
1971-72	22,846	15,785	38,611	69.09
1972-73	23,574	16,561	40125	70.25
1973-74	24,736	17,192	41,910	69.50
1974-75	24,984	18,136	43,132	72.59
1975-76	25,236	18,774	44,041	74.39
1976-77	28,388	19,543	47,903	68.84
1977-78	30,293	20,630	50,885	68.10
1978-79	33,598	23,587	57,170	70.20
1979-80	32,891	22,475	55,328	68.33
1980-81	32,362	23,074	55,436	71.30
1981-82	34,857	25,024	59,881	71.79
1982-83	38,212	25,647	63,859	67.12
1983-84	43,819	26,487	70,306	60.45
1984-85	47,514	27,409	74,923	57.69
1985-86	48,626	29,243	77,871	60.14
1986-87	51,440	31,850	83,290	61.92
1987-88	55,079	34,295	89,374	62.27
1988-89	60,940	36,323	97,263	59.60
1989-90	69,398	39305	1,08,703	56.64
1990-91	72,879	42,403	1,15,282	58.18
1991-92	71,211	39,864	1,11,075	55.98
1992-93	73,451	42,218	1,15,669	57.48
1993-94	81,873	43,620	1,25,493	53.28
1994-95	93,685	46,806	140,491	49.96
1995-96	1,07,453	53,969	1,61,424	50.23
1996-97	1,19,085	57,931	1,77,013	48.65
1997-98	1,17,850	61,839	1,79,689	52.47
1998-99	1,20,116	64,462	1,84,579	53.67
1999-2000	1,24,514	67,411	1,91,926	54.14
2000-01	1,34,324	71,865	2,06,189	53.50
2001-02	1,40,517	73,164	2,13,681	52.07
2002-03	1,49,822	77,213	2,27,035	51.54
2003-04	—	—	2,43,605	—

(Source: National Accounts Statistics.)

society by keeping the prices of inessential items such as gold and consumer durables, high and keeping their consumption to a minimum. Prof. Kaldor was invited to analyse the Indian tax system and suggest reforms. He submitted a report (GOI, 1956) which suggested the replacement of income tax by expenditure tax. He also tried to estimate for the first time the size of the black economy in India. Growing corruption had already become a concern in the 1950s since the government was losing resources.

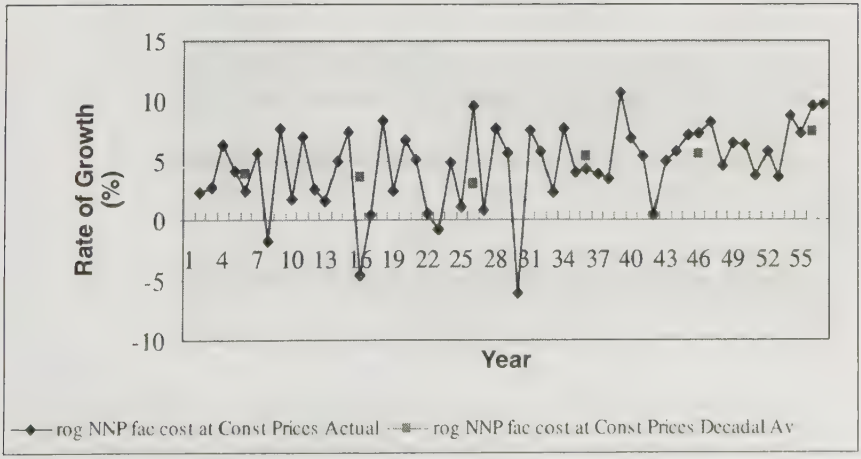
India's "import substitution" strategy for promoting indigenous industry was reinforced by the pre-independence experience when India had low tariffs, so protection to industry was minimal and it hardly developed. In fact, it was during the inter-war period when tariffs were raised that industry grew. This was also the experience of the other industrialised countries that developed when they protected their industry from imports from the technologically more advanced countries.

The various steps listed above which set the framework for future development in India had the effect of diversification of production in India and an average rate of economic growth of about 4 per cent in the 1950s (Graph 3.1), a rate much higher than the approximately 1 per cent rate of growth in the preceding fifty years.

As the drain of surplus to Britain stopped, investment resources within the economy increased and this led to dramatic improvements in the social conditions (*see* Table 1.1). This had the unexpected (though should have

Graph 3.1

Annual and decadal rate of growth of national income from 1950-51 to 2006-07


15
10
5
0
-5
-10
Rate of Growth (%)
1 4 7 10 13 16 19 22 25 28 31 34 37 40 43 46 49 52 55
Year
rog NNP fac cost at Const Prices Actual
rog NNP fac cost at Const Prices Decadal Av

(Source: Economic Survey 2007-08.)

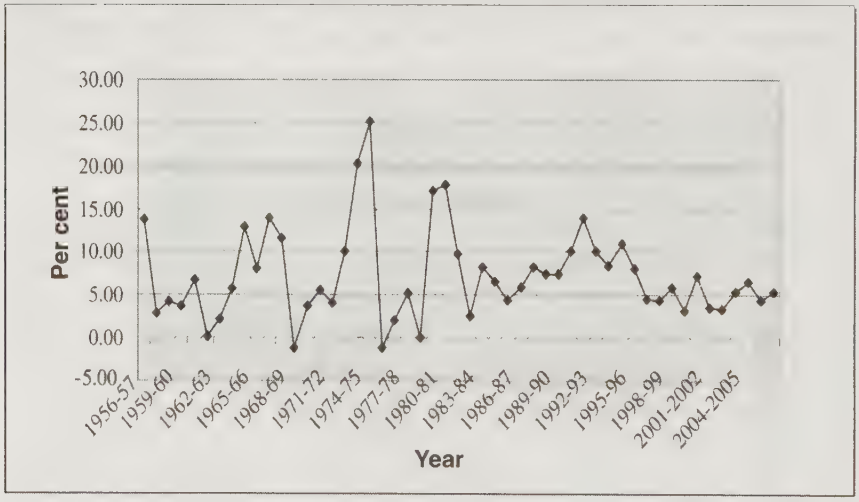
been anticipated) effect of a sharp drop in the death rate while the birth rate did not fall. As a result, the population rate of growth went up sharply. Consequently, per capita income increase was only marginal. Finally, because the distribution of income could not be controlled, disparities grew and the lot of the poor only improved marginally and gradually. While poverty declined, it persisted in large pockets of the country.

3. Problems of the Strategy of Dependent Development in the 1960s

As suggested in the previous section, the lack of emphasis on agriculture meant that its situation did not improve much and it remained dependent on monsoons. This brought matters to a head in 1965-67 when a major drought hit India. There was an immediate crisis of hunger and starvation. Shortages appeared everywhere, prices rose sharply (Graphs 3.2 and 3.3) and the growth of the economy slowed down (Graph 3.1).

Graph 3.2

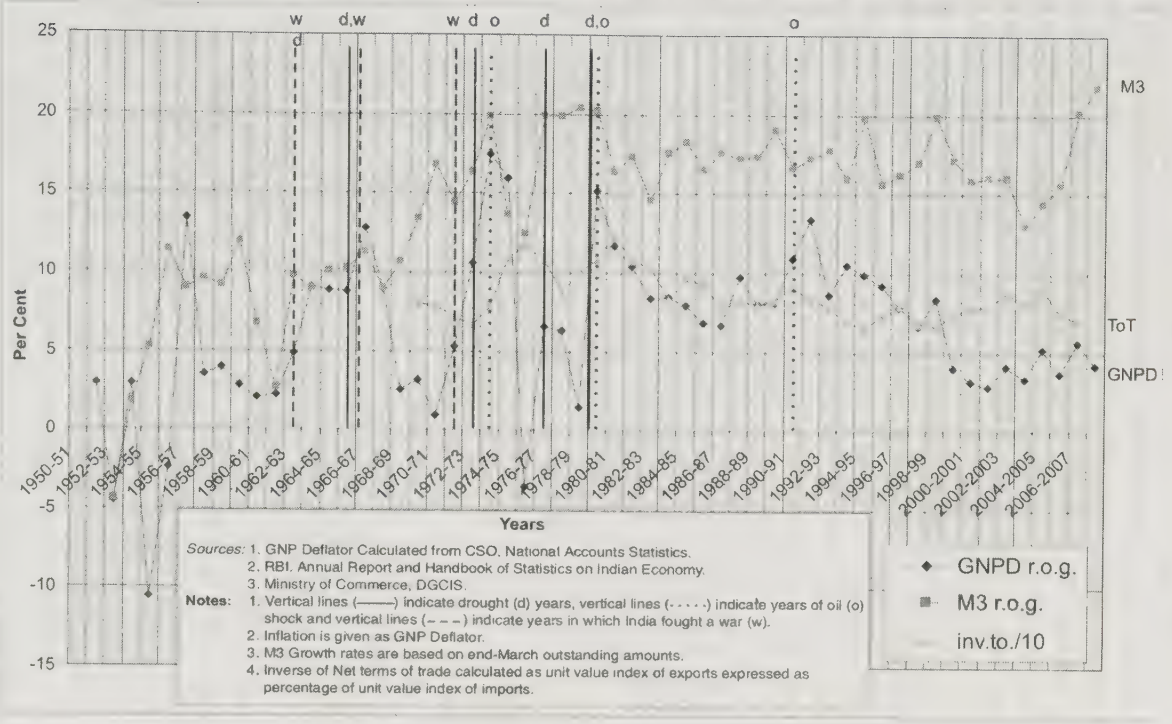
Rate of inflation (WPI) 1956-57 to 2006-07



(Source: Office of the Economic Adviser, Ministry of Industry.)

Graph 3.3

Inflation, terms of trade, rate of growth of M3 and other factors 1950-51 to 2007-08



Sources: 1. GNP Deflator Calculated from CSO, National Accounts Statistics.
2. RBI, Annual Report and Handbook of Statistics on Indian Economy.
3. Ministry of Commerce, DGCIS.

Notes: 1. Vertical lines (———) indicate drought (d) years, vertical lines (· · · · ·) indicate years of oil (o) shock and vertical lines (– – –) indicate years in which India fought a war (w).
2. Inflation is given as GNP Deflator.
3. M3 Growth rates are based on end-March outstanding amounts.
4. Inverse of Net terms of trade calculated as unit value index of exports expressed as percentage of unit value index of imports.

In India, in the mid-1960s, given the dominant share of agriculture in the economy, both in production and consumption, the rate of growth of non-agriculture also slowed down sharply. Government had to divert funds to crisis management and the rate of investment slowed down with a lag of one year. Government, worried that its intervention would fuel demand and aggravate inflation which would be politically damaging, resorted to a Plan holiday. Some industries started to turn sick (a) due to lack of demand, and (b) flight of capital from the eastern region to the western region. Engineering, jute, textiles and coal industries were some of these. The government to protect employment in these industries and also under pressure from the trade unions nationalised them. Industrialists were not unhappy with this since they could turn industry sick by taking capital out and then pass it on to the government. These units became chronically loss making public sector units and gave a bad name to the public sector because they lowered the overall profits of the public sector.

West Bengal which was the biggest industrial centre in the 1950s lost its position as capital shifted to Maharashtra. The strong left movement in the former led to rising labour militancy, strikes and gheraos. The Centre also played politics with public investments by diverting them to other states. Governments in Bengal have often complained that the state was deliberately starved of investment which slowed down its development.

Up to the mid-1960s, industry diversified and public sector expanded but the performance of the latter was not very satisfactory. Delays in implementation of projects led to heavy over-capitalisation and consequent losses. There were teething troubles and capacity under-utilisation. It began to be criticised. In the 1960s, the private sector was criticised for the build-up of monopolies and the Hazari Committee was set up to study the monopolistic practices of big businesses. It found an umbrella pattern of cross holdings and following its recommendations the Monopolies and Restrictive Trade Practices Act (MRTP) was passed to check the growth of monopolies. However, the provisions were circumvented by corruption, such as through cornering of licenses and their non-implementation.

Considerable progress was made in the setting up of infrastructure, both, physical (such as energy, transportation and communication) and social (such as, education and health). The Railways introduced fast long distance trains called the Rajdhani to connect the Metros. Higher education and schools continued to expand raising literacy rates. But compulsory education for children was nowhere in sight since not enough resources were made available for it. The feudal elements in the country did not want the poor to be educated since they would then not get cheap labour. Science and technology expanded with the setting up of research institutions.

International political developments aggravated India's problems. Relations with China which started to deteriorate in the late 1950s came to a head in 1962 with a short and sharp war. China refused to accept the borders as set by the British, characterising them as imperialistic. It surreptitiously occupied Aksai Chin in the North and in the East did not recognise the Macmohan line and the accession of Arunachal Pradesh to India. It refused to recognise the autonomous nature of Tibet and annexed it forcing the Dalai Lama to flee to India in 1959. His being given asylum was seen by China as interference in its internal affairs. China's very assertive stance along its borders led to problems between the two countries. Pakistan saw an opportunity in this and became an ally of China, conceded Aksai Chin to them and developed military links with them.

India was ill-prepared for the war with China in 1962. Its defence expenditure was less than 1.5 per cent of GDP (Table 3.1). Indian forces had all along prepared for a war with Pakistan so that there were inadequate forces facing the Chinese and they were soundly thrashed and lost territory. There was panic that the superior Chinese forces would quickly run over the entire North East and occupy other territories on the Northern borders. However, ceasefire was declared and the Chinese retreated to the old line. This resulted in a sharp deterioration in the relationship between the two Asian giants. Panch Sheel was in tatters and Nehru and the then left leaning Defense Minister Krishna Menon came in for sharp criticism. Nehru's stature received a sharp setback and Menon was sacrificed and had to resign.

The Non-Aligned movement started in 1961. Though China was not a part of it, India's defeat at the hands of China and the resistance of the West never really allowed it to become a major force internationally. The passing away of Nehru, Nasser and Sukarno, its founders, in the 1960s weakened it. It expanded as more and more colonies got liberated but it could not counter the pressure from the Western bloc in spite of the aid from the Soviet Bloc since the former colonies remained strongly dependent on their former masters. Each of the former colonies suffered from severe disruption of various kinds and could not overcome them. The non-aligned countries together could not provide new linkages that could weaken the links with the former colonial powers. As noted earlier, India could have played a major role in this but its Western oriented leadership lacked the vision to push strongly for it.

The 1962 war with China pushed India into asking for military aid from the Western powers and they obliged with arms and other help but extracted a price in the form of listening posts in the Himalayas and weakening of the political opposition to the West. India also sought modern arms from Russia which not only supplied arms but also agreed to make India more self-reliant by offering to set up factories for the production of armament, like the MIG factories. Indian forces that were mostly equipped with British equipment till

then started to diversify and got Soviet equipment. While the West charged for equipment in scarce foreign exchange, the Soviets made it a part of a balanced trade in Rupee terms and accepted Indian goods in return.

Nehru, shattered by the Chinese attack, slowly lost ground and died in 1964. Lal Bahadur Shastri became the next PM. The available leaders in the Congress lacked stature compared to Nehru and the diminutive Shastri was considered to be weak. Perhaps Pakistan thought that India had weakened both because of the China War (and had lost confidence) and the passing away of Nehru, so it attacked India in 1965. Neither of the countries had the stamina for a long war so that there was a quick stalemate and a UN brokered ceasefire was enforced. Shastri's firmness in dealing with the war and the ongoing drought gained him public approval. He gave the slogan of "miss a meal" to cope with food shortages and to encourage the army and the farmers to do their best gave the slogan of "Jai Jawan Jai Kisan". Unfortunately, he died in January 1966 in Tashkent where he had gone to sign an agreement (brokered by the Soviets) with President Ayub Khan of Pakistan.

As a result of the two wars in quick succession, the defence expenditure rose sharply (Table 3.1) and this reduced the investible surplus in the country. The wars were followed by increased internal disturbances with the Naxalite movement starting in Naxalbari in 1967. The Communist Party had split with the emergence of CPI (M) and it further split with the formation of CPI (ML). The Naxalites believed that the nation was ripe for a revolution and only needed a push. There was the influence of the Chinese cultural revolution and the student movement in France. Challenges within India grew because the Pakistanis and the Chinese were interested in weakening India. New police and para-military forces were set up, such as the BSF and the Indo-Tibetan force, increasing unproductive expenditures.

Two successive major droughts stuck in 1965 to 1967. To meet the challenge of food shortages the government resorted to import of food-grains and its distribution through a strengthened public distribution system (PDS). It also set up a procurement system so as to create a buffer stock for the operation of the PDS and stabilisation of the food prices (Table 3.3). Surplus producing areas were zoned to facilitate procurement of the surplus by the Food Corporation of India. Procurement was to be at a minimum price that would be remunerative for the farmers so as to encourage them to grow more. To determine these prices an Agricultural Prices Commission was set up which advised the government about the price to be announced in advance of the crop. These steps put into place a dual pricing mechanism that took care of the interest of both the consumers and the producers and moderated the fluctuations in the prices of food items. This kind of dual pricing was also introduced for other critical commodities, such as sugar and cement.

Table 3.3

Net Availability, Procurement and Public Distribution of Food-grains

(Million Tonnes)

Year	Net production of food-grains (2)	Net Imports (3)	Net availability of food-grains(a)(4)	Procurement (5)	Public distribution (b) (6)	Col. 3 as percent of Col.4	Col. 5 as percent of Col. 2	Col. 6 as percent of Col.4
1951	48.1	4.8	52.4	3.8	8	9.2	7.9	15.3
1952	48.7	3.9	52	3.5	6.8	7.5	7.2	13.1
1953	54.1	2	56.6	2.1	4.6	3.5	3.9	8.1
1954	63.3	0.8	63.9	1.4	2.2	1.3	2.2	3.4
1955	61.9	0.5	63.2	1.3	1.6	0.8	2.1	2.5
1956	60.7	1.4	62.6	----	2.1	2.2	---	3.4
1957	63.4	3.6	66.2	0.3	3.1	5.4	0.5	4.7
1958	58.3	3.2	61.8	0.5	4	5.2	0.9	6.5
1959	69	3.9	72.3	1.8	5.2	5.4	2.6	7.2
1960	67.5	5.1	71.2	1.3	4.9	7.2	1.9	6.9
1961	72	3.5	75.7	0.5	4	4.6	0.7	5.3
1962	72.1	3.6	76.1	0.5	4.4	4.8	0.7	5.7
1963	70.3	4.5	74.8	0.8	5.2	6.1	1.1	6.9
1964	70.6	6.2	78.1	1.4	8.7	8	2	11.1
1965	78.2	7.4	84.6	4	10.1	8.8	5.2	11.9
1966	63.3	10.3	73.5	4	14.1	14	6.3	19.2
1967	65	8.7	73.9	4.5	13.2	11.7	6.9	17.8
1968	83.2	5.7	86.8	6.8	10.2	6.5	8.2	11.8
1969	82.3	3.8	85.5	6.4	9.4	4.5	7.8	11
1970	87.1	3.6	89.5	6.7	8.8	4	7.7	9.9
1971	94.9	2	94.3	8.9	7.8	2.1	9.3	8.3
1972	92	(-)0.5	96.2	7.7	10.5	(-)0.5	8.3	10.9
1973	84.9	3.6	88.8	8.4	11.4	4	9.9	12.8
1974	91.6	5.2	97.1	5.6	10.8	5.3	6.2	11.1
1975	87.4	7.5	89.3	9.6	11.3	8.4	10.9	12.6
1976	105.9	0.7	95.8	12.8	9.2	0.7	12.1	9.6
1977	97.3	0.1	99	9.9	11.7	0.1	10.1	11.8
1978	110.6	(-)0.6	110.2	11.1	10.2	(-)0.5	10	9.2
1979	115.4	(-)0.2	114.9	13.8	11.7	(-)0.2	12	10.2
1980	96	(-)0.3	101.4	11.2	15	(-)0.3	11.6	14.8
1981	113.4	0.7	114.3	13.0	13.0	0.6	11.4	11.4
1982	116.6	1.6	116.9	15.4	14.8	1.4	13.2	12.6
1983	113.3	4.1	114.7	15.6	16.2	3.5	13.7	14.1
1984	133.3	4.1	114.7	15.6	16.2	3.5	13.7	14.1
1985	127.4	(-)0.4	124.3	20.1	15.8	(-)0.3	15.8	12.7
1986	131.6	0.5	133.8	19.7	17.3	0.4	15	12.9
1987	125.5	(-)0.2	134.8	19.7	17.3	0.4	15	12.9
1988	122.8	3.8	130.8	14.1	18.6	2.9	11.5	14.2

(Contd. . .)

Table 3.3 *(contd. . .)*

Year	*Net production of foodgrains (2)*	*Net Imports (3)*	*Net availability of foodgrains(a) (4)*	*Procurement (5)*	*Public distribution (b) (6)*	*Col. 3 as percent of Col.4*	*Col. 5 as percent of Col. 2*	*Col. 6 as percent of Col.4*
1989	148.7	1.2	147.2	18.9	16.4	0.8	12.7	11.1
1990	149.7	1.3	144.8	24.0	16.0	0.9	16	11
1991	154.3	(-)0.1	158.6	19.6	20.8	----	12.7	13.1
1992	147.3	(-)0.4	148.5	17.9	18.8	(-)0.3	12.2	12.7
1993	157.5	3.1	149.8	28.1	16.4	2.1	17.9	10.9
1994	161.2	1.1	154.8	26.0	14.0	0.7	16.1	9.1
1995	167.6	(-)2.6	166.7	22.6	15.3	(-)1.6	13.5	9
1996	157.9	(-)3.1	163.3	19.8	18.3	(-)1.9	12.5	11.2
1997	174.5	(-)0.1	176.2	23.6	17.8	---	13.5	10.1
1998	168.2	(-)2.5	159.6	26.3	18.6	(-)1.6	15.6	11.1
1999	178.2	(-)1.3	169.4	30.8	17.7	(-)0.8	17.3	9.9
2000	183.6	(-)1.4	168.3	35.6	13.0	(-)0.8	19.4	7.7
2001	172.2	(-)2.9	156.9	42.6	13.2	(-)1.8	24.7	8.4
2002	186.2	(-)6.7	189.5	40.3	18.1	(-)3.5	21.7	9.6
2003	152.9	(-)5.5	170.6	34.5	22.5	(-)2.8	22.6	13.2
2004	186.5	(-)6.5	183.3	36.6	28.3	(-)3.5	19.62	15.5
2005	173.6	(-)6.0	170.0	40.8	31.0	(-)3.5	23.5	18.2
2006	182.5	(-)2.3	181.9	41.5	31.8	(-)1.3	22.74	17.5
2007P	190.1	(-)4.7	183.7	35.5	32.8	(-)2.60	18.67	17.8

(Sources: 1. Department of Food and Public Distribution.

2. Directorate of Economics & Statistics, Department of Agriculture & Cooperation.)

Notes:

1. P: Provisional, ...Negligible
   (a) Net availability = Net production + Net imports - changes in Government stocks.
   (b) Includes quantities released under the Food for Work Programme during the year 1978 to 1990.
2. Production figures relate to agricultural year: 1951 figures correspond to 1950-51 and so on.
3. Figures for procurement and public distribution relate to calendar years.
4. Net Imports from 1981 to 1994 are only on Government account and from 1995 onwards, the Net Imports are total Imports and Export of the Country.

India had started receiving food aid under PL 480 in the 1950s and this came in handy during the severe drought of the mid-Sixties when large quantities of grains were received. It was then said that India lived from "ship to mouth". The US used this aid to extract further concessions from India and in 1967 when a new Congress government came to power with Mrs. Indira Gandhi as the PM, a major devaluation of the currency was forced on the country. This once again brought home the need for self sufficiency in the country. As Sridhar (2008: 22) writes, "Lord Boyd-Orr remarked after independence in Bombay that, "so long as a country depended

for its food on other countries, it was not independent even though it may be free politically".

The severe drought and the two wars led to a sharp setback in the developmental strategy set into motion after independence. There was a Plan holiday between 1966 and 1969 and this marked the beginning of the downgrading of planning in the country.

The country went in for Green Revolution technology in agriculture to step up production in wheat and later in rice and other crops. This technology developed in the West required capital and other inputs, such as assured irrigation, mechanisation, chemical fertilisers and pesticides. Hence, it was only feasible where the infrastructure existed and the farmers were prosperous enough to adopt the technology, such as in Punjab and pockets of Andhra Pradesh. Further, over time there was greater casualisation of labour in agriculture and the gap between the landed and landless in green revolution areas grew. Even though it was clear that rural disparities would grow, the need for self-sufficiency was paramount and the country went ahead. As Sridhar (2008: 23) writes, it led to " . . . dramatically increased food grain yields and reduced the dependency on food imports, this aggregate self-sufficiency masked a substantial extent of individual food insecurity, . . .".

The Green Revolution technology required credit and this was made possible by the nationalisation of the major banks in 1969. Banks in India were controlled by big business who used them to meet their credit needs. They were mostly urban based with hardly any rural and semi rural branches. Thus, credit availability in rural areas and for agriculture depended on the informal banking structures operated by the local rich who charged usurious rates. This had become a mechanism for keeping agriculture backward (*see* Bhaduri, 1972 and 1981). Nationalisation of banks led to a rapid expansion in bank branches and its spread to the rural areas (Tables 3.4 and 3.5).

Table 3.4

Distribution of Scheduled Commercial Banks' Offices

Year	*Rural*	*Semi-Urban*	*Urban*	*Metropolitan*	*Total (number)*
1952	540	1,942		1,451	4,061#
1960	831	2,512		1,633	5,026
1965	801	2,836		2,354	6,133*
1967	1,247	3,022		2,716	6,985
1969	1,833	3,342	1,584	1,503	8,262
1970	3,063	3,718	1,744	1,606	10,131
1971	4,280	4,040	1,949	1,744	12,013
1972	4,817	4,401	2,504	1,900	13,622
1973	5,561	4,751	2,764	2,286	15,362

(Contd. . .)

Table 3.4 *(. . . contd)*

Year	*Rural*	*Semi-Urban*	*Urban*	*Metropolitan*	*Total (number)*
1974	6,166	5,116	3,091	2,563	16,936
1975	6,807	5,598	3,489	2,836	18,730
1976	7,690	6,421	3,998	3,111	21,220
1977	9,537	7,248	4,542	3,475	24,802
1978	11,806	7,628	4,843	3,739	28,016
1979	13,337	7,889	5,037	3,939	30,202
1980	15,105	8,122	5,178	4,014	32,419
1981	17,656	8,471	5,454	4,126	35,707
1982	20,401	8,809	5,693	4,274	39,177
1983	22,686	9,081	5,917	4,395	42,079
1984	25,380	9,326	6,116	4,510	45,332
1985	30,185	9,816	6,578	4,806	51,385
1986	29,703	10,585	7,209	5,790	53,287
1987	30,209	10,637	7,218	5,795	53,859
1988	31,114	11,132	7,322	5,842	55,410
1989	33,014	11,166	7,524	5,995	57,699
1990	34,791	11,324	8,042	5,595	59,752
1991	35,206	11,344	8,046	5,624	60,220
1992	35,269	11,356	8,279	5,666	60,570
1993	35,389	11,465	8,562	5,753	61,169
1994	35,329	11,890	8,745	5,839	61,803
1995	33,004	13,341	8,868	7,154	62,367
1996	32,995	13,561	9,086	7,384	63,026
1997	32,915	13,766	9,340	7,529	63,550
1998	32,878	13,980	9,597	7,763	64,218
1999	32,857	14,168	9,898	8,016	64,939
2000	32,734	14,407	10,052	8,219	65,412
2001	32,562	14,597	10,293	8,467	65,919
2002	32,380	14,747	10,477	8,586	66,190
2003	32,303	14,859	10,693	8,680	66,535
2004	32,121	15,091	11,000	8,976	67,188
2005	32,082	15,403	11,500	9,370	68,355
2006	30,579	15,556	12,032	11,304	69,471
2007	30,551	16,361	12,970	11,957	71,839
2008 P	31,033	17,627	14,304	12,857	75,821

(Source: RBI, Handbook of Statistics on the Indian Economy 2007-2008.)

Note: For the Years 1952, 1960, 1965, 1967; there is no distinction between Urban / Metropolitan. P: Provisional. # 128 branches were unclassified.

* 142 branches were unclassified.

Table 3.5

Loans and Advances of PACS, SCARDBs and PCARDBs

Year	PACS			SCARDBs			PCARDBs		
	Advanced		Amount Outstanding	Advanced		Amount Outstanding	Advanced		Amount Outstanding
	No. of Borrowers	Amount		No. of Borrowers	Amount		No. of Borrowers	Amount	
	(in million)	(in ₹ Crore)		(in million)	(in ₹ Crore)		(in million)	(in ₹ Crore)	
1977-78	16	1,273	1,798					238	1,276
1978-79	19	1,458	2,049					241	1,334
1979-80	20	1,629	2,374				1	319	1,476
1980-81	20	1,769	2,621				1	362	1,609
1981-82	21	2,134	2,951					373	1,716
1982-83	20	2,439	3,201				1	425	1,934
1983-84	20	2,632	3,522				1	410	1,755
1984-85	19	2,915	3,904				1	504	1,862
1985-86	19	3,111	4,263				1	595	1,685
1986-87	18	3,304	4,732		203	301	1	354	1,657
1987-88	20	3,688	5,242		190	8	1	356	1,574
1988-89	21	4,364	5,949		275	626	1	422	197
1989-90	18	4,513	6,284		421	1,406		351	1,925
1990-91	17	4,311	6,486		384	1,348		376	2,014
1991-92	19	5,575	8,177		300	30		444	2,143
1992-93	24	6,223	10,245		415	1,906		542	2,480
1993-94	14	7,158	9,399		469	2,091		612	2,701
1994-95	17	8,312	9,996		566	2,500		651	2,709
1995-96	24	10,552	12,980		1798	6,857		1,219	4,098

(Contd. . .)

Table 3.5 *(. . . contd)*

Year	PACS			SCARDBs			PCARDBs		
	Advanced		Amount Outstanding	Advanced		Amount Outstanding	Advanced		Amount Outstanding
	No. of Borrowers	Amount		No. of Borrowers	Amount		No. of Borrowers	Amount	
	(in million)	(in ₹ Crore)		(in million)	(in ₹ Crore)		(in million)	(in ₹ Crore)	
1996-97	39	11,292	13,345		2151	8,016		1,455	4,936
1997-98	41	12,137	13,994		2295	9,182		1,593	5,840
1998-99	44	12,743	14,894		2437	10,442		1,692	6,819
1999-20	43	23,662	28,546		2532	11,598		1,818	7,574
2000-01	47	25,698	34,522		2586	12,596		1,866	8,276
2001-02	56	30,770	40,779		2746	14,110		2,045	10,005
2002-03	64	33,996	42,411		2962	15,333		2,151	10,809
2003-04	51	35,119	43,873		2942	16,221		2,197	11,336
2004-05	45	39,211	48,785		2291	17,404		2,506	12,633
2005-06	46	42,920	51,779		2907	17,678		2,296	12,870
2006-07					2436	18,644		1,970	12,179

(Sources: National Bank for Agriculture and Rural Development (NABARD). RBI, Handbook of Statistics on the Indian Economy, 2007-08.)

Note: As at end-June up to 1991-92 and end-March thereafter.

1. PACS: Primary Agricultural Credit Societies.
2. SCARDBs: State Co-operative Agricultural and Rural Development Banks.
3. PCARDBs: Primary Co-operative Agricultural and Rural Development Banks.

Within the ruling Congress party there was a struggle for power between the so called progressives and the establishment forces. Mrs. Gandhi had taken over as prime minister after Mr. Shastri's death in January 1966 and was referred to as "Gungi Gudiya" because she could not even speak confidently in meetings. However, she quickly gained confidence and fended off the challenge from the regional leaders who controlled the organisation and represented the conservative elements. They were confident that they could manipulate a weak Mrs. Gandhi. However, she had had the advantage of being close to Nehru right through his Prime Ministership and had understood how to wield power. In 1969 she played the master stroke of bank nationalisation and then the abolition of Privy purses of the former kings and princes to don the mantle of a progressive and challenge the conservative forces. The Congress party split with the left of Centre groups going with her and she became the undisputed leader. The pendulum swung too far and she accelerated the centralisation of powers in the Prime Minister's office and this accentuated the autocratic tendencies of the Indian leadership.

The 1960s saw the marginalisation of West Bengal in economic terms. Capital shifted from there to West India, especially Bombay and Maharashtra. There the trade unions were weakened by creating divisions amongst them by raising emotive issues like "Maharashtra for Maharashtrians". The country had to pay for this since it accelerated the rise of regionalism.

In spite of considerable difficulties, there was social progress but disparities grew with gains cornered by a few. The policy of reservations for the SC / ST was to end by 1965 but given that the conditions of these groups hardly improved, it had to be extended. Compulsory education for all children was to be ensured also by 1965 but the country was far from this target. Without education for the children of the poor it was inconceivable that these families could break out of the poverty trap (*see* Chapter XI). Excess land was to be distributed to the poor to help them break out of their poverty but this hardly happened.

In brief, the 1960s saw the developmental path adopted in the 1950s face a crisis because (a) it was alien and not suited to the Indian requirements, and (b) there was confrontation with the neighbours on issues that were a product of colonisation. The rate of growth came down sharply after the mid-1960s. The hope of rapid growth and modernisation in the 1950s started fading and led to growing cynicism amongst the citizens and to armed struggle by the poor. The lot of the poor was not improving. Corruption was rapidly growing and for the first time the Kairon effect was mentioned, namely an efficient leader was one who took a bribe and delivered. The Santhanam Committee report highlighted corruption and the Wanchoo Committee was set up to investigate direct taxes and they also analysed the growing black economy. The Congress party lost power over most of North India in the

1967 general elections. All the different forms of disruptions of the pre-independence period mentioned in the previous chapter manifested themselves in this decade.

There were two major international developments that were to have a big impact on the world and India in the coming decades. The first was the Vietnam war in which the USA got progressively more and more involved. The second was the Arab-Israeli conflict in 1967 and the occupation of major Arab territories by the Israelis.

4. Growing Disarray of the 1970s

The 1970s started with a brewing crisis nationally, in the neighbourhood and internationally. During the decade the economy had a low rate of economic growth and bouts of high inflation. However, with the green revolution taking hold, there was self sufficiency in food by the mid-1970s. Both the public sector and the industrial sector grew slowly. Due to a rapid rise in petroleum prices there was an economic boom in the Middle East and it faced labour shortages. This led to the migration of many skilled Indians who started sending remittances to their families and this prevented the balance of payment from deteriorating in spite of the oil shock.

Simmering problems in the neighbourhood came to a head. Pakistan faced difficulties in what was then East Pakistan and now Bangladesh. The Bengalis felt discriminated by the Punjabis who controlled power in West Pakistan which dominated the country. This led to a nationalist upsurge to quell which the Pakistani army came down heavily on the Bengali population of East Pakistan and this led to a full scale revolt. A resistance movement by the name of Mukti Bahini led by Sheikh Mujibur Rehaman was set up with help from India to fight for liberation of East Pakistan.

The idea of a theocratic state received a setback and the idea of a secular India as a viable entity received a boost in the context of South Asia. A massive flood of refugees from East Pakistan fleeing the growing oppression of the Pakistani army came to India and strained its resources. There numbers swelled to 12 million. This gave India a chance to claim legitimacy for political and military intervention. Mrs. Gandhi after being in power for 5 years and politically trouncing the right wing in her party in 1969 had gained confidence and signalled to the Army to intervene in East Pakistan and India struck on 3 December, 1971. That was the appropriate time to intervene given that the Himalayas are snow bound and the Chinese could not come to the rescue of the Pakistanis by opening another front. Anticipating this, India had shifted a few mountain divisions from the Chinese border to the border with East Pakistan to attack at the appropriate time. The war and the preparations for it over a year added to the economic burden on India.

Neither China nor the West liked India's intervention in East Pakistan. They did not want Pakistan weakened but the large number of refugees streaming into India could not be overlooked. Mrs. Gandhi also moved for a strategic alliance with the USSR to counter the USA and this marked a low in the relationship with the USA. To stall India's advancing army in East Pakistan the US moved its Seventh fleet into the Bay of Bengal. However, the speed of Indian advances and the collapse of the Pakistani forces surprised everyone and warded off any confrontation between India and the USA. The war spilled over to the western front and a weakened Pakistan lost some territory but under pressure from the world powers, even the USSR, ceasefire was soon declared.

In Pakistan, the army got discredited and lost power. Mr. Z A. Bhutto came to power. He initiated a dialogue with Mrs. Gandhi and the two signed the Shimla Pact. There was hope of peace in the South Asian sub-continent but this was not to be. Sheikh Mujibur Rehman was assassinated and resentment against India built up because it was seen as a big brother. Pakistani army smarting under its humiliation looked for opportunities to settle scores. Hence, there was little peace dividend and the defence budget kept on increasing (Table 3.1).

Mrs. Gandhi asserted India's independence by exploding a nuclear device in 1974 and called it a peaceful nuclear explosion (PNE). India continued to reiterate its commitment to a nuclear free world. In the guise of a peaceful nuclear programme, India acquired considerable knowledge about making a bomb. The explosion had an immediate impact in the Western world and India stopped receiving cooperation in the nuclear field and getting advanced technology from the West became more difficult. For instance, Canada which was to supply the reactors (CANDU) for the Rajasthan Atomic Power (RAP) plant stopped its cooperation. This set back India's nuclear programme considerably.

Through the nuclear explosion, India was not only signalling to the world but also trying to compete with China which had developed its bomb and missile in the early and mid-sixties. The US had given India a commercial nuclear power plant (set up in Trombay) but later refused to supply fuel for it which put India in considerable difficulties because it had little uranium of its own or the enrichment technology. India tried to go for an alternative path *via* the fast breeder reactors which could use thorium (India has plenty of it). However, till date India has neither been successful in commercially developing this technology nor in getting it from others because other than France, no other nation has developed this complex technology. Nuclear technology is an example of India's continued dependence on the West for advanced technology long after independence because of a lack of will. In

contrast, China was successful in spite of its isolation from both the Western and the Soviet blocs.

In 1973, the Yom Kippur war broke out in the Middle East and the Arab countries used the oil weapon to raise oil prices sharply by cutting back output. This "oil shock" in the world economy led to inflation rates sharply going up and India was no exception to this. Between 1972-74 India experienced a drought which led to an increase in the rate of inflation (Graph 3.2). The two factors coming together led to high rates of inflation.

In 1971, Mrs. Gandhi returned to power with a thumping majority because of her firm handling of the East Pakistan situation and the clever and emotive slogan "Garibi Hatao". India returned to the path of planning with the Fourth Plan which targetted poverty removal. However, the economic situation deteriorated in the early seventies and Mrs. Gandhi in spite of winning by a big margin faced growing political difficulties.

To tackle price rise, Mrs. Gandhi took on the trade lobby which used to speculate in food-grains. She nationalised the wholesale trade in wheat but this boomeranged and prices rose even further so that within months, this policy had to be reversed. Mrs. Gandhi nationalised the ailing coal industry in 1973 and general insurance in 1972, but these did not divert attention from the growing economic difficulties.

The political problems increased due to the Nav Nirman movement in Gujarat where the youth revolted against corruption. In Bihar, the JP movement started amongst the youth. In 1974, there was a major railway strike. All this reduced Mrs. Gandhi's credibility. The worst was to come in June 1975 when she lost a case in the Allahabad High Court which declared her election in 1971 as invalid. Mrs. Gandhi imposed Emergency on the country to save herself.

Not only was this an attack on India's democracy but it marked the beginning of a rightward drift in policies in India. Mrs. Gandhi's younger son, Sanjay Gandhi became active with his young brigade and started interfering in political and governmental functioning. The left wing that had drawn close to Mrs. Gandhi since the late 1960s, (for instance, Mr. P. N. Haksar) got marginalised. The influence of the West started reasserting with top economic positions increasingly filled by people from the World Bank, the IMF and other such agencies.

To justify the imposition of Emergency, Mrs. Gandhi initiated the Twenty Point Programme based on a pro-people agenda, consisting of land ceiling, debt relief and so on. Family planning programme based on an element of coercion and forced removal of slums to clean Delhi were also initiated and they discredited Mrs. Gandhi and the Emergency. She got increasingly isolated from the public by the sycophants around her (like, the Congress President who said Indira is India and India is Indira). They told her

that she was doing well and had gained popularity and could win elections. So, in early 1977 she called for elections.

The entire opposition leadership had been jailed (an estimated 100,000 people) during the Emergency. During their incarceration, they had agreed to come together. So, soon after the elections were announced and the leaders released from jail they under the leadership of Jai Prakash Narain (JP), formed the Janata Party. Due to the ground swell it won a big victory and came to power in 1977. Mrs. Gandhi lost her election and also power.

However, she quickly bounced back because this grouping had little ideological coherence. It consisted of the right wing elements from the Swatantra Party, the right wing elements of Congress who had parted ways with Mrs. Gandhi in 1969, the Jan Sangh with its staunch Hindu nationalistic stance and the socialists of various hues who had left of centre leanings. Mr. Morarji Desai, a right wing leader, was chosen to head the government. Due to his inflexibility he proved unequal to the task of running such a diverse coalition. Internal squabbling grew rapidly and the government fell in 1979. Another government was formed under the farmer's leader, Chowdhury Charan Singh but it was a minority government and never faced Parliament and declared elections. Mrs. Gandhi returned to power in 1979 end with a good majority.

The Janata Party neither strengthened democracy nor the economy. It weakened planning further and suggested the idea of a "rolling Plan". The Public Sector was weakened and the relations with the Soviet Union were downgraded. This affected the country's R&D effort which was linked largely to the public sector — the private sector hardly did any research since it was risky. Whatever it called research was for marketing purposes, so in the early 1980s, the tax concession to businesses for R&D was withdrawn.

Mrs. Gandhi's return was aided by the rapid price rise due to the major drought in 1979-80. This completed the public's disenchantment with the Janata Party. During this period Mrs. Gandhi hobnobbed with the extremist elements in Punjab to weaken the hold of the Akalis and the Jan Sangh. Sant Bhindranwale emerged to lead a separatist movement in Punjab which later recoiled on her and led to her assassination.

The situation in Sri Lanka deteriorated with growing political and economic problems. It is an important neighbour of India with a substantial Tamil population and for long it has faced an ethnic problem between the Tamils in the North and the Eastern part of that country and the Sinhala majority. It launched New Economic Policies (NEP) in 1977 which led to a spurt in growth but also to a rise in disparities (Mariadas, 2007). The rising tensions led to a break out of Civil War in 1983. India which trained the Tamil groups faced additional problems.

Afghanistan saw increasing Soviet intervention after the communist coup there and soon it became their Vietnam. They could neither win nor leave and this weakened them economically. The US backed the Islamic fundamentalists and heavily armed them against the communists. The entire South Asian sub-continent was awash with weapons and drug trafficking grew. Terrorist groups in India also got strengthened.

The rise of the Left to power in West Bengal from 1977 was a significant development in India. They initiated the Bargardar Movement in the villages and consolidated their hold on the state and that rule continued for over 30 years. In India, seldom has any party ruled more than two terms after 1967. This suggests that wherever a party builds a mass base and works for the poor, it can counter anti-incumbency.

The end of the Vietnam War in 1974 and soon thereafter the passing away of Mao in 1975 and with that the end of the Maoist period in China were important international developments. Deng Tsiao Peng captured power after a brief struggle with the gang of four and completely revamped China's economic policies. He emphasised growth and said that how it was achieved is not important — a cat has to catch mice and it does not matter whether its colour was white or black. China's authoritarian system allowed the ruling elite to ride rough shod over any kind of opposition to these policies. The social consequences of environmental degradation, sharp increase in corruption, disparities and huge migration from rural to urban areas could be contained by the government. The issue is not what the colour of the cat is but whether it is catching mice or something else.

To encircle the USSR, USA and China entered into an agreement in 1972. Kissinger came to India ostensibly to meet Indian leaders after the Bangladesh fiasco to apparently sort out matters but he secretly went to China and met Mao which paved the way for the meeting with Nixon. A strategic alliance was initiated between China and the US. This became one of the most significant international development impacting the world and India in the 1980s. The USSR started to decline economically from the mid-1970s and this accelerated in the 1980s. A more assertive USA and a declining USSR impacted events in India.

International Finance Capital operating through the World Bank had been trying to gain greater leverage over the developing world and this task became easier with the decline of the USSR. However, it is not that the Bank had one consistent line all through the post Second World War period. It changed with the needs and the understanding of the US. In the sixties, spread of communism in Asia from China to Vietnam to the other countries (Domino theory) seemed imminent. The understanding was that this was a result of existence of extreme poverty. The success of Viet Cong was under-

stood to be due to poverty in Vietnam. Consequently, the World Bank strategy from late 1960s to the mid-1970s became poverty removal.

However, with the end of the Vietnam war, souring of relations between China and Vietnam and the disarray in Cambodia and Laos, the threat of spread of communism receded. The World Bank pushed the Brazilian model of free trade and markets from the mid-1970s. This phase lasted till the mid-1980s because the Latin American economies faced a debt trap due to the high interest rates prevailing in the world.

By the mid-1980s, the success of the South East Asian economies was visible to all. But this was not on account of the free markets and depended on successful state intervention in the markets. The new line became "market friendly state intervention"; state should create and help markets and leave them free for the capitalists to exploit. This lasted till the 1997 financial meltdown in the South East Asian economies. At that point they were characterised as examples of "crony capitalism". The line shifted to what was seen as the Chinese success with "growth at any cost". India has been impacted by these changing positions of international finance capital since the mid-1960s.

Due to the drought in the mid-1960s and the persistence of poverty in India, the World Bank's "poverty removal" line coincided with the country's need. Mrs. Gandhi's left of centre policies also required such a line. She used the "Garibi hatao" slogan in 1971 to win elections and the Fifth Plan focused on this. The Emergency and the rise of Sanjay Gandhi and then the coming to power of Janata Party in 1977 resulted in the right ward drift in India and a shift of policies in favour of the market and the decline in the role of the public sector. India's BOP problems and the IMF conditionalities in 1980 accelerated the right ward drift in India both in economic and political terms.

Thus, the 1970s saw a large shift in India. From the pro-poor Garibi Hatoa of 1971 and a challenge to the West in helping Bangladesh gain freedom from Pakistan to Janata Party's anti-public sector and anti-planning line was a big jump in a short time. Of course, history never proceeds linearly and there was the FERA in 1974 which forced the dilution of equity in MNCs (and led to the departure of IBM and Coca Cola) and the new Drug policy that led to the availability of cheap drugs in India. The Indian drug companies gained an advantage over the pharmaceuticals MNCs. In spite of these flashes of progress and progressive policies, India unmistakably drifted to the right. From the mid-1970s, India was firmly set on the path of marketisation which finally gained ascendency in 1991.

5. The 1980s: Heading Towards the Crisis of Mixed Economy

The decade began with the economy still facing the impact of the drought of 1979-80. The crisis in Afghanistan and Iran and the oil shock led to pressure on balance of payments so that in 1980 India had to approach the IMF for assistance and had to accept conditionalities. During the decade, the government's resource position deteriorated with the growth in revenue deficit starting in 1979-80. Throughout the 1980s the debt, both internal and the external, rose rapidly resulting in a rising interest burden and greater borrowings causing the emergence of a vicious cycle and a debt trap. The country faced an average high rate of inflation during the decade. Investments rose only gradually (Table 3.6) but the rapid rise in the budget deficit pumped in demand leading to an accelerated rate of growth in the 1980s. As Graph 3.1 shows, the average growth rate for the 1980s went up to 5.3 per cent from the average of 3.7 per cent over the preceding three decades.

Table 3.6

Indian Economy Various Macroeconomic Variables (as % of GDP)

Year	*GDS*	*GDCF*	*Export*	*Import*	*Direct Tax*	*Indirect Tax*	*Total Tax*	*Agriculture and Allied Activities*	*Industry*	*Service*
1950-51	8.6	8.4	7.4	7.1	2.33	3.99	6.31	55.28	10.65	34.07
1951-52	9.0	10.7	8.0	9.8	2.31	4.68	6.99	54.78	10.88	34.34
1952-53	8.0	7.7	6.9	6.8	2.43	4.11	6.54	55.04	10.95	34.01
1953-54	7.6	7.5	5.7	5.8	2.15	3.81	5.96	55.93	11.04	33.03
1954-55	9.1	9.3	6.6	7.0	2.25	4.50	6.74	55.23	11.30	33.47
1955-56	12.3	12.6	7.0	7.7	2.38	4.68	7.06	53.36	11.80	34.84
1956-57	11.9	14.6	5.9	9.1	2.22	4.65	6.87	53.21	11.97	34.82
1957-58	10.0	13.5	6.0	9.8	2.45	5.38	7.83	51.52	12.69	35.79
1958-59	9.1	11.6	4.8	7.4	2.31	5.01	7.32	52.66	12.37	34.97
1959-60	10.8	12.3	5.0	6.4	2.41	5.35	7.76	51.03	12.95	36.02
1960-61	11.2	14.0	4.6	7.2	2.34	5.52	7.86	50.81	13.18	36.01
1961-62	11.2	13.1	4.4	6.0	2.47	6.01	8.48	49.38	13.87	36.75
1962-63	12.3	14.5	4.3	6.2	2.86	6.67	9.53	47.38	14.68	37.94
1963-64	11.9	13.8	4.4	6.1	3.08	7.26	10.34	46.15	15.24	38.61
1964-65	11.6	13.8	3.9	5.8	2.83	7.08	9.91	46.85	15.06	38.09
1965-66	13.7	15.8	3.4	5.3	2.65	7.91	10.56	43.16	16.01	40.83
1966-67	13.6	16.6	4.2	6.8	2.45	7.97	10.42	42.02	16.04	41.93
1967-68	11.6	13.8	4.1	6.0	2.13	7.3	9.43	44.56	15.01	40.43
1968-69	11.8	12.9	4.1	4.9	2.16	7.52	9.68	43.38	15.47	41.15
1969-70	14.0	14.5	3.8	4.1	2.25	7.57	9.82	43.43	15.99	40.58

(Contd. . .)

Table 3.6 *(. . .contd)*

Year	*GDS*	*GDCF*	*Export*	*Import*	*Direct Tax*	*Indi-rect Tax*	*Total Tax*	*Agricul-ture and Allied Activities*	*Indus-try*	*Service*
1970-71	14.2	15.1	3.1	3.9	2.21	8.19	10.40	44.31	15.46	40.23
1971-72	14.7	15.7	3.2	4.1	2.39	9.00	11.39	43.06	15.86	41.09
1972-73	14.3	14.8	3.7	4.0	2.50	9.44	11.93	41.01	16.57	42.42
1973-74	16.4	17.0	3.5	4.3	2.37	8.90	11.26	42.14	16.51	41.35
1974-75	15.7	16.5	4.1	5.7	2.37	9.54	11.90	40.99	16.84	42.17
1975-76	16.9	16.7	5.0	6.4	2.99	10.43	13.43	42.37	16.05	41.57
1976-77	19.1	17.6	5.7	6.0	2.88	10.86	13.74	39.47	17.20	43.32
1977-78	19.5	18.0	5.3	5.9	2.64	10.39	13.03	40.45	16.94	42.61
1978-79	21.2	21.3	5.0	7.0	2.59	11.51	14.10	39.39	17.94	42.67
1979-80	19.8	20.3	5.2	8.0	2.56	12.07	14.63	36.13	18.41	45.46
1980-81	18.5	19.9	4.6	8.9	2.27	11.53	13.80	37.92	17.45	44.63
1981-82	18.1	19.6	4.5	8.3	2.45	11.87	14.32	37.55	17.99	44.45
1982-83	17.7	19.0	4.8	8.3	2.39	12.08	14.47	36.38	18.29	45.33
1983-84	17.1	18.3	4.6	7.7	2.24	12.13	14.36	37.15	18.48	44.37
1984-85	18.2	19.6	4.8	7.5	2.17	12.42	14.59	36.30	18.57	45.13
1985-86	19.0	21.2	4.1	7.5	2.25	13.32	15.56	34.96	18.53	46.52
1986-87	18.4	20.5	4.2	7.2	2.21	13.71	15.92	33.38	18.97	47.66
1987-88	20.2	22.1	4.6	7.2	2.11	13.97	16.08	31.72	19.34	48.93
1988-89	20.5	23.4	4.9	8.1	2.31	13.56	15.88	33.30	19.24	47.46
1989-90	21.8	24.3	5.8	8.3	2.30	13.68	15.98	31.75	19.72	48.53
1990-91	22.8	26.0	5.8	8.8	2.16	13.27	15.43	31.37	19.80	48.83
1991-92	21.5	22.1	6.9	7.9	2.55	13.25	15.80	30.32	19.46	50.21
1992-93	21.2	23.1	7.3	9.6	2.59	12.66	15.26	30.69	19.07	50.23
1993-94	21.9	22.5	8.2	9.7	2.53	11.67	14.19	30.01	19.40	50.60
1994-95	24.4	25.5	8.3	11.1	2.85	11.75	14.60	29.53	20.13	50.33
1995-96	24.4	26.2	9.1	12.3	3.01	11.74	14.75	27.34	21.24	51.43
1996-97	22.7	24.0	8.8	12.6	3.00	11.69	14.69	27.83	21.23	50.94
1997-98	23.8	25.3	8.7	12.5	3.32	11.17	14.49	26.00	20.77	53.23
1998-99	22.3	23.3	8.2	11.4	2.82	10.56	13.38	25.91	20.16	53.93
1999-00	24.8	25.9	8.3	12.3	3.12	10.95	14.07	24.99	19.60	55.40
2000-01	23.7	24.3	9.9	12.6	3.41	11.11	14.52	23.89	19.99	56.12
2001-02	23.5	22.8	9.4	11.8	3.21	10.59	13.80	23.99	19.33	56.68
2002-03	26.4	25.2	10.6	12.7	3.56	10.96	14.51	21.43	19.88	58.69
2003-04	29.8	28.2	11.0	13.3	3.98	11.06	15.03	21.72	19.42	58.86
2004-05	31.8	32.2	12.1	16.9	4.35	11.34	15.70	20.20	19.61	60.19
2005-06 P	34.3	35.5	13.0	19.4	4.68	11.73	16.41	19.56	19.37	61.08
2006-07 QE	34.8	35.9	14.0	20.9	5.57	12.17	17.74	18.51	19.54	61.94
2007-08 RE			13.5	21.2	5.70	12.43	18.14	17.75	19.38	62.87

***(Source**:* Handbook of Statistics, Indian Public Finance Statistics and EPWRF Data for Exports and Imports for 1950-51 to 1969-70.)

P: Provisional; QE: Quick Estimate; RE: Revised Estimate.

The 1980s saw the Chinese and the Newly Industrialising Countries (NIC) of South East Asia take rapid strides. This forced India to emulate them and open up the economy. Further, under the IMF conditionalities (accepted in 1980), the economy started to open out. Consumer durables were permitted entry with colour TV, washing machines and Maruti car becoming the symbols of new consumerism in the country and which was further promoted by advertising via colour TV. The country increased its borrowings internationally to enable increased consumption of luxury goods which required increased import of these goods, their components and energy to run them. The economy seemed to be doing well but it headed towards a crisis by end 1980s.

The economy recovered quickly after the drought of 1979-80 and NRI remittances rose so that the BOP improved and the country did not need to fully draw the IMF loans granted in 1980. It repaid what it had borrowed so that it became free of the conditionalities. However, due to the widespread failure of Planning and PSUs in the 1960s and the 1970s, the elite wanted to shift to markets and the country continued opening up of the economy. It was suggested that increased imports would lead to upgrading of technology which would lead to increased exports. It was said that even if initially the BOP deteriorated, later things would improve. It was argued that the country should borrow more internationally since it had been conservative and had not borrowed enough in the past. Not only did the country borrow long-term but also started borrowing short run so that its foreign debt increased nine fold in 10 years and led to the crisis at the end of the decade in 1989-90. Some argued that this strategy was a deliberate ploy to trap India into giving up its relatively independent policies so that it would be forced to come under the influence of international capital and the Western bloc.

The Western powers realising that the USSR posed no challenge after the late 1970s started leaning harder on the developing world. For instance, there was greater pressure for opening up of trade in agriculture from 1982. New issues were introduced in GATT negotiations at Puenta del Este in Uruguay in 1986 — Trade in Agriculture, Trade in Services (GATS), Trade in Intellectual Property Rights (TRIPS) and Trade in Investment Measures (TRIMS). Other features were introduced, such as dispute settlement and cross retaliation to make WTO more effective.

The West had initiated a long-term strategy of shifting the Indian economy away from its mixed economy path to the market path. The Emergency in the mid-1970s and rise of Sanjay Gandhi came in handy for this. Key economic posts in government started being filled by people from the World Bank, IMF and so on. These people brought with them the ideology of the institutions they came from so that the path dictated by international finance capital started becoming more acceptable. The bureaucracy in general also

came under the influence of these institutions with bureaucrats wanting to go to serve there to earn large salaries. This increased the influence of these institutions immeasurably.

A number of economic reports dealing with the failure of economic policies were commissioned after the mid-1970s and they suggested the marketisation of the economy and a retreat of the state — the mantra of international finance capital later to be termed the Washington Consensus (*see* Williamson, 2004). Some important reports were the Committee on Indirect Taxes (1978), Committee on Controls and Subsidies (1980), Report on Foreign Trade (1978) and Economic Administration Committee Report (1983). The ground for change was also prepared amongst the policy makers, intellectuals and the media. They were cultivated by grant of consultancies, invitations to seminars abroad and so on. Elite Indians with their fascination for everything foreign were easily enticed. Jobs for self or children in international organisations were considered lucrative and worth changing one's opinion for. Academics could be heard saying "one short run consultancy of a few months and I can buy my car and one long run stint of a year or two and I can buy a house". Once one got used to a better (consumerist) lifestyle, there was no going back; one was trapped.

The early 1980s saw a rapid rise in terrorism and separatism in Punjab. No doubt this was fuelled by Pakistan with help from the US and China who wanted to keep India strategically weak. Mrs. Gandhi ordered action against the militants holed inside the premises of the Golden Temple in Amritsar in 1984 and became a target of Sikh militant's hatred and got discredited in the Sikh community. Soon after, she was assassination by a Sikh member of her own guard on 31 October, 1984. North India saw massive riots against the Sikh community. Mrs. Gandhi's surviving son Rajiv Gandhi replaced her as the new PM. Her younger son, Sanjay had tragically died in 1980 in a plane crash and Rajiv who was disinterested in politics till then entered it to help her mother. In the general elections that followed, Rajiv Gandhi, riding the sympathy wave with women in the forefront, won with the largest ever majority (more than what even Nehru had ever obtained).

In a speech, soon after Mrs. Gandhi's assassination, Rajiv Gandhi said, when a big tree falls then the earth shakes — a casual justification / attitude to the brutal and widespread massacre of the Sikhs. Many around him were implicated in the riots and his statement was perhaps a signal to them that law would not catch up with them. Whether due to this or because of the slow functioning of the Indian justice system and the manipulations by the political class, prosecution of the well connected who were behind the massive riots has not been possible till date, 27 years after the events. The brutalisation of society implied by crowds watching people burn undermines any notion of Hindus being tolerant and peace loving — a convenient delusion.

The killings in 1947, the communal riots in Mumbai in 1993 and in Gujarat in 2002 testify to the existing brutalisation.

Rajiv Gandhi was free from the baggage of history, innocent of the intricacies of the independence movement and had little experience of the country and its poverty. From being an airplane pilot, he parachuted to power. A man who till the other day was supposed to have disliked politics and had stayed away from its rough and tumble became India's PM. Given his upbringing and the circle of friends he kept, he pushed for elitist policies in the name of modernisation. References to socialism and poverty became few and far in between. This was most apparent in his speech at the centenary celebration of the Congress Party in 1985. It may be said that he was not hypocritical like others and transparent about his beliefs but this could hardly be any consolation to the marginalised in the country. He also practiced soft Hindutva by allowing the locks of Ram Temple in Ayodhya to be opened which brought the Babri Masjid issue to the centre stage of Indian politics. Going further, he started his 1989 election campaign from Ayodhya.

He gave slogans like, "government that works", "clean government" and "modern India by 2001". He and those around him with faith in the private sector allowed the public sector to run down. He got trapped in corruption with Bofors (the Howitzer from Sweden) symbolising it. The massive mandate he obtained was dissipated by the end of 1987 and he went out in disgrace, losing power to his former friend and his Finance Minister Mr. V. P. Singh who led a campaign against corruption. Mr. Singh became the PM in 1989 end, heading the National Front, an anti-Congress front, consisting of the Left, the Centre and the Right. Once again (as in 1977) the lack of ideological coherence came in the way of governance and this experiment did not last long even though Mr. V. P. Singh had claimed that his political skills lay in managing contradictions and conflict.

During the 1980s, foreign debt rose dramatically — going up from around $10 billion to around $ 90 billion. Aid from the Aid India club, the grouping of Western powers under the World Bank, increased. With advice from the World Bank trained economists in the government and given Rajiv's inclinations, India started taking long-term commercial loans abroad and later even went for short run borrowings. The advice was that in the past, India had been conservative and had taken too little of foreign commercial loans and that these could be used to increase imports to modernise the economy.

However, this strategy boomeranged on the country by the end of the 1980s. As oil prices rose in end 1980s, due to the Iraq crisis, the import bill increased sharply resulting in growing BOP crisis which led to the short term loans drying up precisely when they were needed the most, causing foreign exchange reserves to fall rapidly. The NRIs who had been depositing

money in Indian banks also withdrew their funds aggravating the outflow and precipitating the crisis. These deposits were easy money for India in the mid-1980s but as it became clear later it had greatly raised India's vulnerability. Some even argue that the strategy of borrowing and importing was a deliberate ploy to trap India to force it to change its policies from the mixed economy model to the market driven one.

The situation on the trade and technology fronts was vitiated by the collapse of the Soviet bloc in 1989-90. There was a rupee payment agreement with the countries of this bloc and trade was balanced. Repayment of aid was also through this mode so that it enabled India to increase its exports. This reduced India's dependence on the West, imports from where required foreign exchange and that was always short. Some people argued that what was sold to the Soviet bloc could have been sold to the West to earn foreign exchange, but then the nation would have earned less from the Soviet bloc and would have had to import more from the West and would have spent more of foreign exchange. Further, the problem was that for many items, the West was not willing to give the technology while the Soviet bloc was willing to supply it, so more trade with the West would not have resolved the nation's problem. Be that as it may, the collapse of the Rupee trade added to the BOP problems of the country in 1990 and increased India's dependence on the West.

Rajiv Gandhi was seemingly driven by the desire to upgrade technology in India. For this he initiated action on six Technology missions. Telecommunications were upgraded with the setting up of public telephones all over the country. CDOT was set up under Mr. Sam Pitroda (a friend of Rajiv) who was brought in from the US and had little idea of Indian conditions. He was given huge funds and a free hand to develop the technology for telephone exchanges which were being denied to India by the Western firms who were not willing to transfer technology. The freedom given was unprecedented by the standards of the staid Indian public sector. It delivered quickly — the Rural exchange (RAX) and the Medium exchange (MAX) were developed within a few years.

Unfortunately, CDOT languished with the launch of the New Economic Policies in 1991, under pressure from the MNCs who wanted to capture the Indian market and for whom India's self-sufficiency would have been detrimental. This is one more example of India coming close to developing a technology but the effort getting wasted due both to interference from abroad and the weakness of leadership (*see* Chapter XI). This has happened in the case of defence research and development where in the name of not compromising the country's security, new equipment has been purchased and indigenous effort allowed to languish.

The country went in for a new Software policy in 1987. It opened the markets for imports so that the nascent Indian software companies turned into traders since they could not compete with the big foreign companies either in terms of capital or the size of the market (Kumar, 1987c). The success of India's software industry since the 1990s has not been that it has developed world class software across the board but that it predominantly provides cheap labour (body shopping) and maintains the software for clients. As some have said, India provides the "cyber coolies", a throw back to the indentured labour of the colonial period.

One key development during the 1980s was the launching of the Uruguay round of GATT Negotiations in 1986. As already mentioned, the developed countries had been pressurising the developing world to open their markets in agriculture and so on and formally these new issues were introduced in this round. It was also proposed that GATT be replaced by WTO (World Trade Organisation). The developing countries resisted these moves and made India and Brazil their leaders to negotiate on their behalf and protect their interest. However, both deserted them due to the internal weaknesses. In 1987, Rajiv Gandhi was weakened due to the Bofors and other corruption charges. Mr. Collar, President of Brazil, was weakened due to the collapse of his economy.

The advanced nations broke the unity of the developing world by offering different inducements to different nations. A draft agreement called the Dunkel Draft was readied in 1990 by Mr. Arthur Dunkel, the Director General of GATT. The main text of the draft was the position of the advanced countries while the positions of the developing countries were in square brackets. The final draft signed in Marrakesh in 1994 consisted of the position of the advanced nations and all the text in square brackets disappeared. The developing world was told to "take it or leave it".

For the developing nations the choice was between bilateral or multilateral coercion. As a result of their colonial past, the advanced nations have been their principal trading partners and this would remain true whether they were a part of the new WTO or not. The choice for them was to be coerced multilaterally by becoming a part of the WTO or to be coerced bilaterally if they did not join it. In the latter situation they would have to bargain bilaterally with each of the advanced nations and would have to accept their terms. All the developing countries joined WTO since they felt it was better to be multilaterally coerced. East European nations and China also joined WTO later since they also did not have an option.

The economic crisis of 1989-91 forced India to go to the IMF and World Bank and accept their conditionalities. As mentioned above, the roots of the crisis lay in the BOP problems triggered by excessive imports in the 1980s which were increasingly financed by foreign borrowings. The situation was

aggravated by the NRIs withdrawing their deposits since they did not wish to incur losses due to the anticipated exchange rate depreciation. For similar reasons, Indian businessmen used the illegal channels to siphon out funds from India, exporters delayed bringing back their receipts and the importers accelerated their purchases. In brief, the crisis of 1989-91 was triggered by both internal and external factors including rising instability due to growing debt and factors linked to the growing black economy in the country.

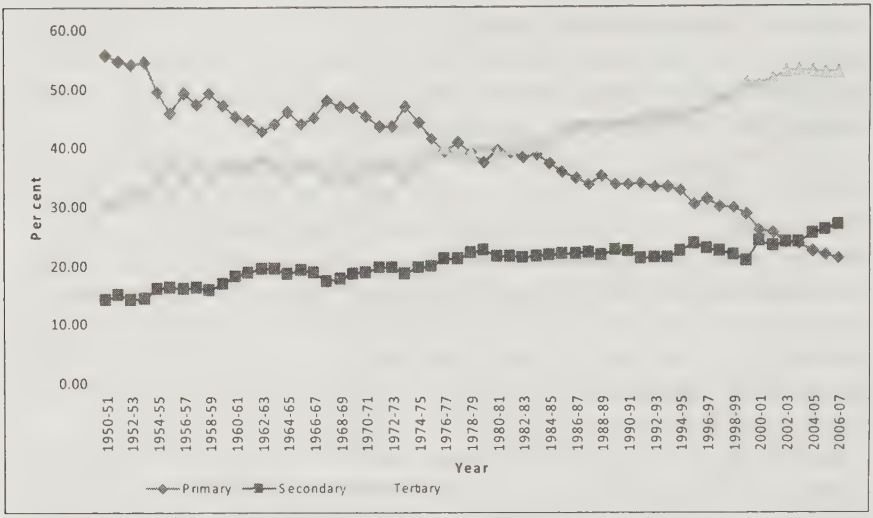
The 1980s saw a shift in the nature of inflation in India. Up to the drought of 1979-80, after a drought ended, the rate of inflation used to come down but that was not so in the 1980s (*see* Graph 3.2) and the rate of inflation remained high. Also, earlier, the economy used to show negative growth rates as agricultural output fell and pulled down the non-agricultural sector's rate of growth. That has changed in the 1980s and the output continues to rise in spite of the drop in agricultural output. This reflects a structural change in the economy with the marginalisation of agricultural sector and growing conflict in society.

In India, as economic difficulties increased after the 1960s and the political process deepened there was a divergence between growing expectations and the capacity of the system to fulfil them. More and more groups emerged that did not believe that the system would deliver to them so they politically mobilised themselves to demand their share from the economy. These new groups saw that the elite had cornered the gains of development in the top down approach and marginalised them so they also demanded their share independent of what it may mean for the country as a whole. They felt that they had waited long enough and had been exploited not only earlier but even currently. The short sightedness of the Indian ruling elite began paying to boomerang in the growing alienation and narrowing of perspectives all around.

Conflict amongst the various sections of the population grew rapidly after the mid-1960s and as the former deprived sections came to power they exerted pressure on government policies and extracted concessions for themselves — not very different from what the elite sections had been doing. For instance, agriculture which was weak in the market compared to industry which could exercise monopoly power in the market used its political clout to gain concessions — in fixing prices, obtaining subsidies and cheap credit, and so on. Weaker sections of society demanded reservations and obtained it. Those who could not openly pressurise the government or were restricted by policy to manipulate the market mechanism (as in the case of big businesses) resorted increasingly to illegality and earned extra incomes through the black economy.

Graph 3.4

Sectoral changes in the Indian Economy 1950-51 to 2006-07



(Source: Handbook of Statistics and Indian Public Finance Statistics)

Conflict over shares of incomes in the market was superseded by conflict over government policies and through the illegal route of resorting to the black economy. The economically and politically powerful groups cornered the nation's resources by using these three mechanisms in different combinations and this led to the growing problems in the budget, in BOP and led to sustained inflation in the 1980s. That is why the nature of inflation changed and it became sustained rather than being sharply peaked during the drought years.

The structure of the economy has been constantly changing with the weight of agriculture constantly falling and that of services rising (*see* Graph 3.4). Thus, in the 1980s, when the agricultural sector declined during a drought it led to a decline in the economy's rate of growth but not to negative growth as used to happen earlier. It reflected the marginalisation of the agricultural sector in economic terms even though in employment terms and with regard to the population dependent on it, it remained dominant. This implied the marginalisation of a majority of the Indians who were dependent on agriculture since their welfare became less and less important.

With the coming to power of Mrs. Margaret Thatcher in UK (1978) in the late 1970s, right wing economic policies began to dominate the world. The turn around in China in the post-Mao period and the rapid decline of economic position of the USSR helped this process. With Ronald Reagan becoming the president of USA in 1980, the swing to the Right and the domi-

nance of the neo-classical economic policies accelerated. He initiated the hugely expensive star wars programme of setting up missile defences in contravention of the SALT II. This was a continuation of the idea of bleeding the USSR to collapse that was initiated by Nixon by tying up with China to surround the USSR and later by giving aid to fundamentalists in Afghanistan to fight the Soviet forces. The star wars programme was the ultimate nail in the coffin of bleeding the USSR by forcing it to spend an inordinately large per cent of its GDP on defence. Its economy also became less efficient due to growing corruption. All this resulted in the economic decline in the 1980s till its collapse in 1990. The economic decline of the USSR set the stage for big economic changes in the world and in India in the 1990s.

In the closing years of the 1980s, there was a great deal of international and national turbulence which impacted the Indian economy. There was the Iraq crisis, the oil shock and rising inflation. Terrorism in Kashmir grew rapidly while the situation in Punjab continued to be grim. Attempts by Rajiv Gandhi to work out a solution (such as the Longowal Accord) did not succeed. The mishandling of the situation by the Congress leadership due to placing its own narrow party interests above that of the nation had aggravated the problem in the two states and made their resolution difficult. In Sri Lanka, the civil war started in 1983 between the government and the LTTE and it rapidly covered its entire Eastern and Northern parts. At the request of the Sri Lankan government India sent in a peace keeping force (IPKF) in 1987 but the Indian troops got mired in the conflicts. The LTTE, the force that India had fostered, became its enemy and ultimately Rajiv was assassinated by them (even though there has been speculation that they did it on behalf of a big power). All these developments bled the Indian economy and led to a growing crisis. The one positive news, in the midst of these negativities was the slight thaw in relations with China.

In brief, while the Indian economy did well, it headed towards a crisis by the end of the 1980s. The political situation in the country became more and more volatile due to the rise of terrorism, growing political conflicts and rise of new political groups. The situation all over South Asia turned increasingly difficult. External powers intervention in Bangladesh, Sri Lanka and Afghanistan led to growing difficulties. The shift to the Right in India accelerated with the growing influence of the World Bank and the IMF, rise of consumerism, increasing openness, rising foreign debt and so on.

Globally, the Left ideology faced a crisis after the mid-1970s because it tried to compete with capitalism not on its own terms but those of the latter. In India too, the Left which had looked towards the USSR and China for direction got more and more confused in spite of its apparent political success in West Bengal and its policies inevitably drifted rightward (as with the rest of society). The compulsions of being in power in a capitalist system

had their own logic and they impacted the Left. To begin with, changes were imperceptible but they accelerated during the late 1980s. The Left did not work out a viable alternative to the collapsing national economy and this weakened them further. The world increasingly became uni-polar with the rapid decline of the USSR and East Europe during this decade. China and NIC grew rapidly and became the examples for other developing countries to follow. However, at the start of the decade, the Latin American economies had collapsed under debt burden and capitalism was discredited. This failure had even threatened widespread failure of banks in the USA but capitalism rapidly weathered this storm by pursuing more right wing policies.

6. The 180-Degree Turn with New Economic Policies

6.1 Events Leading to a Policy Paradigm Shift in 1991

Like the decade of the 1980s, the 1990s also started on a note of growing national and international economic and political crisis. The National Front government headed by V. P. Singh took over in the closing days of the 1980s in the midst of an economic crisis, growing terrorism in Punjab and Kashmir, the growing Hindutva assertion on the Ram Janmabhumi issue and the consequent growing communal divide. The internal divisions within the National Front started manifesting themselves from day one. Even the selection of Mr. V. P. Singh to lead the government was not without its own drama and controversy which later proved its undoing. The government started fire fighting to save itself and its attention was diverted from the big national issues that confronted the nation.

Mr. V. P. Singh facing the twin challenge of Devi Lal and BJP, played his Mandal card in August 1990 to save his government. Reservations for the Other Backward Castes (OBCs) had been hanging fire for a decade. These castes had politically become more and more assertive in North India with the rise of the Jat and the Yadav leaders. The Dalits became important due to the rise of BSP in UP. Given the OBC numbers, no political party could oppose Mr. Singh's move but the upper castes were unhappy and turned against him for bringing to the fore this issue. While the OBCs saw this as a means of social justice, the upper castes saw this as divisive. To meet this challenge, the BJP, representing the upper caste got more assertive on the emotional issue of Ram Janmabhumi and Babri Masjid at Ayodhya.

The National Front government collapsed in November 1990 and was replaced by a government under Shri Chandrashekhar even though he had only 54 MPs in Parliament. He had outside support of the Congress party under Rajiv Gandhi but it was clear that this was an unstable arrangement. On a non issue, Mr. Rajiv Gandhi withdrew support and the government fell

without even being able to present its budget in February 1991. The enormous economic challenge facing the nation aggravated since there was hardly any strategy to tackle it. For the umpteenth time, the politicians for their own narrow ends let the nation down by not focusing on the bigger challenges facing the nation. Fresh general elections were ordered for May-June 1991.

In 1991, India faced an unprecedented economic crisis and was about to default on its international obligations. Mr. Chandrashekhar in a meeting said that a government of 54 MPs is like a lame government and cannot achieve much. In fact, the country's credibility had sunk so low internationally that it had to send its gold to Switzerland as collateral to raise small loans of a few hundred million dollars. The various IMF tranches of loans it received in 1990-91 disappeared quickly due to the outflow of funds as mentioned in the previous section. Given the situation, the new minority government headed by Mr. Narasimha Rao which took over office in June 1991 was panicked into adopting policies dictated by the IMF and the World Bank.

In the midst of the prevailing political instabilities, few were thinking in 1990-91 of an alternative to the then existing economic policies that were leading to high inflation, rising fiscal deficit and a growing BOP problem — all together amounting to an economic crisis. Consequently, in 1990, when the Indian economy was tottering, there was no indigenous model available. However, this was nothing new for the Indian leadership and the intellectuals.

What became clear was that the model of development adopted in 1947 had failed and had to be replaced by something else. The ruling elite that had set out on this path for its own benefits could not continue it any further and had no alternative to suggest in its place. The marginalised sections of the population with little say in policy and who had suffered due to policies based on trickle down were advised to wait a little longer for the golden future so that they continued to face unemployment and inflation which adversely affected their living standards.

Unlike the Indian ruling elite, International Finance Capital had its blueprint for India ready. By 1989-90, it had prepared reports for the reform of the various aspects of the Indian economy. It had co-opted the intellectuals and other important segments of the Indian ruling elite to back its proposals. The reports were prepared with help from many of those in power. These reports were sent to the Government of India and they had been seen by the then Economic Advisor to the PM, Shri Manmohan Singh. Later on, in the Parliament, in July 1991, the former PM, Shri Chandrashekhar accused Shri Singh of not letting him know of these reports.

Mr. Singh had returned after serving as the Secretary of the South Commission under Mr. Julius Nyrere. In the statement on external debt in March 1988, he wrote the following about conditionalities:

> "Grave doubts exist concerning the theoretical validity of the key prescriptions now involved in conditionality. Their economic and social effects have in a number of cases been highly adverse. Monetary programming has frequently led to excessive idle capacity and rising unemployment. Financial liberalisation in condition of inflation has led to aggravation of inflation. Insistence on the elimination of selective economic measures has aggravated the maldistribution of income. Insistence on import liberalisation in periods of pressure has led to aggravation of balance of payments deficits and frequently to devaluations to a degree greater than would be needed otherwise. Insistence on indiscriminate expansion of exports of primary products in many countries simultaneously has led to more than proportionate price declines and thus to declines in the value of primary exports of developing countries as a group. Insistence on free trade irrespective of country conditions has led to many conflicts with national development strategies." (Fernandez, 1991)

In June 1991 a new minority government led by the Congress (I) came to power. Due to the tragic assassination of Mr. Rajiv Gandhi in May 1991, by what was believed to be LTTE cadres, the vote swung in favour of the Congress Party and the mantle of leadership fell on Shri Narasimha Rao. He was packing his bags to leave Delhi after a long innings at the Centre but responsibility was suddenly thrust on him. A man who had developed a reputation of sleeping through meetings because he was bored and / or unwell, suddenly revived with the elixir of power and actively steered the country through a difficult phase. He chose Mr. Manmohan Singh as Finance Minister (I.G. Patel was possibly the first choice but he is reported to have wanted to complete his term as Director of LSE but the country could not wait) and gave the green signal to launch the World Bank and IMF suggested economic policies. These were called the New Economic Policies (NEP). It was suggested that there was no alternative (TINA), a term coined by Mrs. Thatcher in 1978. The poor were told that they would have to sacrifice for some more time while businesses were given huge concessions. The economy was rapidly opened up to flow of goods, services, capital and technology — this package is referred to as globalisation (More in Chapter VII).

6.2 The Paradigm Change in Policies

Policy that had seen a paradigm shift in 1947 saw another one in 1991 with the launch of NEP. This was not some minor or sectoral change in policy but a total change in the philosophy underlying policies. Slowly, every sector and policy was affected (*see* for instance, Kumar, 1994a, GOI, 1993a and Williamson, 1989). In 1947, with the experience of colonialism, the leadership believed that poverty, illiteracy, ill health, and so on, had a social basis and required social intervention for their eradication. Thus, state was given a large role in the economy. Under NEP, this was stood on its head so that the individuals became responsible for their problems and they were required to take care of themselves and the state was absolved of responsibility for them. For instance, poverty removal or employment generation was supposed to take place through the functioning of the markets and the individuals were supposed to go there for the resolution of their problems.

Consequently, government was to retreat from the economy and its sole economic role was to help the markets. In a sense, create markets and leave them "free" to operate. So let prices be "free" and not be set by the government. Thus, subsidies and minimum wages become undesirable. In this scheme of things, the public sector and the idea of commanding heights had to be dismantled and planning downgraded (*see* Table 3.7). The private sector was to play the leading role and had to be given incentives by the government to perform its role. So, direct taxes were drastically cut, restrictions such as licensing were removed, MRTP, FERA and reservations for small scale sector were removed or diluted and so on. The reduced role of government in the economy has meant that fluctuations have increased and counter cyclical policies are less feasible (though they were used in 2007-09 during the global crisis). This was the culmination of the rightward drift in the country that had been going on since the mid-1970s.

Under NEP, growth started to be emphasised for its own sake and distribution was not even paid lip service. Socialism and equity were deemphasised. India from a "caged tiger" was supposed to become a roaring tiger. Reports of a huge middle class were circulated by the government (figures of 150 to 300 million were mentioned) and consumerism was promoted amongst the better off sections. Automobile production which was 35,000 per annum till 1983 was supposed to rise to one million by 2000 — a thirty fold increase. A narrow class, which nonetheless was larger in numbers than the population of most European countries, was supposed to drive the Indian growth story. Foreign capital was encouraged in a big way with concessions,

Table 3.7

Plan Outlay in the Public Sector 1951-52 to 2007-08

(in ₹ Crore)

Year	*Plan Outlay*	*GDP MP Current*	*GDP of Public Sector*	*Plan Outlay / GDP*	*GDP of Public Sect / GDP (in %)*
1951-52	259.6	10,566		2.46	
1952-53	267.6	10,366		2.58	
1953-54	343.0	11,282		3.04	
1954-55	475.9	10,678		4.46	
1955-56	613.9	10,873		5.65	
1956-57	635.0	12,951		4.90	
1957-58	890.0	13,349		6.67	
1958-59	1,018.0	14,874		6.84	
1959-60	1,012.0	15,675		6.46	
1960-61	1,117.0	17,167	1,638	6.51	9.54
1961-62	1,130.3	18,196	1,846	6.21	10.15
1962-63	1,385.5	19,566	2,128	7.08	10.88
1963-64	1,713.6	22,482	2,458	7.62	10.93
1964-65	2,014.8	26,220	2,768	7.68	10.56
1965-66	2,332.3	27,668	3,175	8.43	11.48
1966-67	2,164.5	31,305	3,583	6.91	11.45
1967-68	2,084.9	36,649	4,068	5.69	11.10
1968-69	2,376.0	38,823	4,610	6.12	11.87
1969-70	2,209.9	42,750	5,252	5.17	12.29
1970-71	2,523.5	45,677	5,907	5.52	12.93
1971-72	3,130.3	48,932	6,599	6.40	13.49
1972-73	3,727.3	53,947	7,300	6.91	13.53
1973-74	4,187.8	65,613	8,613	6.38	13.13
1974-75	2,928.4	77,479	11,105	3.78	14.33
1975-76	6,416.9	83,269	13,170	7.71	15.82
1976-77	8,081.7	89,739	15,363	9.00	17.12
1977-78	9,226.2	1,01,597	16,975	9.08	16.71
1978-79	10,773.0	1,10,133	18,869	9.78	17.13
1979-80	12,176.5	1,20,841	21,730	10.08	17.98
1980-81	15,023.4	1,43,764	25,409	10.45	17.67
1981-82	18,372.9	1,68,600	31,413	10.90	18.63
1982-83	21,724.9	1,88,262	38,412	11.54	20.40
1983-84	25,313.6	2,19,496	45,173	11.53	20.58
1984-85	30,032.5	2,45,515	51,719	12.23	21.07
1985-86	33,059.9	2,77,991	60,561	11.89	21.79

(Contd. . .)

Table 3.7 *(. . . contd)*

Year	*Plan Outlay*	*GDP MP Current*	*GDP of Public Sector*	*Plan Outlay / GDP*	*GDP of Public Sect / GDP (in %)*
1986-87	39,149.1	3,11,177	71,469	12.58	22.97
1987-88	42,920.6	3,54,343	82,773	12.11	23.36
1988-89	48,069.8	4,21,567	98,454	11.40	23.35
1989-90	55,530.2	4,86,179	1,14,637	11.42	23.58
1990-91	61,518.1	5,68,674	1,30,202	10.82	22.90
1991-92	64,751.2	6,53,117	1,55,420	9.91	23.80
1992-93	72,852.44	7,48,367	1,77,302	9.73	23.69
1993-94	88,080.7	8,59,220	2,01,758	10.25	23.48
1994-95	98,167.3	10,12,770	2,34,913	9.69	23.20
1995-96	1,07,380.4	11,88,012	2,76,342	9.04	23.26
1996-97	1,18,976.4	13,68,208	3,02,074	8.70	22.08
1997-98	1,29,757.3	15,22,547	3,54,856	8.52	23.31
1998-99	1,51,580.4	17,40,985	4,05,955	8.71	23.32
1999-2000	1,60,608.2	19,36,831	4,57,006	8.29	23.60
2000-01	1,85,736.8	20,89,499	4,80,952	8.89	23.02
2001-02	1,86,315.2	22,82,143	5,23,781	8.16	22.95
2002-03	2,10,203.0	24,69,564	5,76,210	8.51	23.33
2003-04	2,24,827.0	27,72,194	6,13,897	8.11	22.14
2004-05	2,63,655.0	31,49,412	6,69,335	8.37	21.25
2005-06	2,47,177.0	35,80,344	7,12,447	6.90	19.90
2006-07(R.E.)	3,09,912.0	41,45,810	8,12,315	7.48	19.59
2007-08(B.E.)	5,31,594.0	49,47,857		10.74	
2008-09					

R.E.: Revised Estimate

B.E.: Budget Estimate

(*Sources:* (a) Planning Commission, (b) National Accounts Statistics.).

such as in the case of the failed Enron. If Enron had not collapsed on its own due to corruption, it would have created a huge dent in the budget of the Maharashtra state and some analysts feared that even the Central government could have been in difficulties because of the likely extent of outgo (Kumar, 1994a).

6.2.1 The Growing Political Uncertainty and Drift Towards the USA

Mr. Narasimha Rao's government was replaced in 1996 by the UF government that was a diverse coalition and could not last long. Two PMs came in quick succession but finally the government resigned. This government had the Left as a component but there was no change in policies which remained neo-liberal. There was even a chance that Mr. Jyoti Basu could have become the PM. But the opposition in his own party did not allow him to do so and this was later characterised by some in his party as a "historic blunder". However, it is not clear if his becoming the PM would have led to any change in national policies given the domination of the Right wing but it is certain that his continuation of the neo-liberal policies under the pressure of the dominant forces would have led to a more rapid decline of the Left in the country. The UF government was replaced by the BJP at the head of another alliance. However, this government soon suffered a defeat and a new election was held in 1998. Again the BJP at the head of the NDA alliance came to power.

The NDA government went in for a nuclear explosion without the pretence of a peaceful explosion (PNE). Again (like in 1974) international sanctions were imposed on India. Pakistan reacted with its own nuclear explosions and the South Asian sub-continent saw the visible (till then it was surreptitious) start of another arms race. Expenditures on command and control systems, safeguards and ensuring proper political control had to be incurred and this was not in the interest of either of the nations because it diverted energies from developmental tasks. Earlier in 1995 when the Congress government had come close to testing a nuclear device, it is reported that the US had got wind of it and had arm twisted the government not to go ahead with it. The international sanctions did not last long and the impact on the economy was marginal. The rate of growth of the economy declined a bit in the period from 1998 to 2002 but it was still good (Graph 3.1).

In 2001, the 9 / 11 event in the US led President Bush to declare a "global war on terrorism". The fundamentalist forces armed by the US to fight the USSR in Afghanistan in the 1980s returned to haunt them. The USA invaded Afghanistan and Iraq in quick succession. Pakistan with substantial presence of fundamentalist and Talibani forces in its territory was seen to be less reliable than earlier even though it remained a front ranking state drafted by the USA in its fight against Islamic fundamentalism. India which has consistently been fighting Islamic terrorism in Kashmir and other forms of terrorism in the rest of the country was also recognised as an ally in this global fight. The attitude of USA towards India started to change and

the two nations have been trying to forge strategic relations with each other since then.

Both the NDA and the UPA governments have been wanting India to be drafted into this new relationship even if it was as a junior ally of the USA. In the absence of any alternative, the Indian ruling elite which had long back given up any pretence of an independent stance has been willing to side with the sole super power in the world. The NDA government was even willing to commit Indian troops to the Iraq war in 2003 but backed off due to opposition in Parliament. Joint military exercises, training of Indian personnel in the US and granting of facilities to the US forces have followed. US has offered arms sales. As a part of the package, nuclear sanctions were diluted.

The biggest sop was the US offer of a nuclear agreement to end India's nuclear apartheid. Despite much opposition to the deal, it went through in 2008 in typical Indian parliamentary style with money changing hands and parties switching sides en masse. These moves on the nuclear front imply that India has given up on its earlier alternative vision of promoting peace in the world and aspires to be a member of the nuclear club. India has also gone against Iran and other Islamic countries to appease US interests. It has downgraded its participation in the Asian axis being forged between USSR, China and others. The timing of the Indian ruling elite in forging closer links with the USA is interesting — they are drawing closer to the US when its power is being challenged and it has been more and more isolated in the world.

During the 1990s, terrorism in Punjab declined while it has persisted in Kashmir even if at a lower level. While there has been no full scale war between India and Pakistan, there has been long standing confrontation in Siachen Glacier and there was the Kargil war and the confrontation between the two nations after the attack on Parliament. These were diffused by US intervention. While Mr. Vajpayee did try a peace initiative by taking a bus ride to Lahore, this was followed by the Kargil war and the entire effect was nullified. US has been mediating to bring down the level of tensions between the two nations with some success and it does imply that it is adopting a less partisan role. This is perhaps a reflection of the changed geo-political situation in which the US sees China as a threat and India as a potential ally. Also, following the "clash of civilisations" hypothesis, India is seen as an ally against Islam.

The US interest has been to keep Pakistan as an ally in its fight against Iran and the Taliban in Afghanistan. For the success of this strategy, it is important that Pakistani forces do not get tied up on its eastern border with India. So, the US has been trying for a resolution of the Kashmir problem. It has activated parallel track diplomacy. The Kashmiri muslims have been asking for independence and over time this demand has strengthened as their

alienation from the rest of the country has increased. India's use of a huge army to keep Kashmir under control has been at a big cost in lives and liberty (not to mention the financial cost). The logjam is that on the one hand, India cannot let Kashmir go since it would dent the idea of India as a secular nation and possibly lead to communal riots in the rest of the country (as in 1947) and on the other hand, Kashmiris are too far gone to accept Indian rule. This impasse has continued to bleed India and this suits Pakistan and other neighbouring powers.

The alienation of the muslims from the country deepened with the demolition of the Babri Masjid (December 1992) and Gujarat riots (2002) leading to a widening of the communal divide. This has helped the fundamentalist forces to recruit young people to their cause more easily. As a reaction to the terrorist actions, Hindu militancy has seen a rise. Relations between the Hindus and the Christians have also been affected. Hindu fundamentalists have felt that the Christian missionaries have been converting poor Hindus and the tribals to their religion. In response to the charge that while the Christians have been doing real social work with the poor and thereby influencing them, the RSS has also opened a large number of schools that preach the Hindu view of life. The action and reaction has only deepened the divide that was deliberately fomented during the colonial times as a policy of divide and rule. The country's leadership has not been able to narrow the various divides because all kinds of political parties have emerged to represent narrow sectarian interests and they benefit from the continuing social divide. Vote banks have emerged and leaders see these as important to propel them to power.

The 1990s has been marked by the rise of regional parties and the decline of the national parties, such as the Congress (I) and the BJP. They are now down to 100 to 200 seats each in Parliament. Governments have been coalitions or minority governments functioning with support from outside. The result has been a rising political instability with governments seen to be weak. Governments seem to survive from one state level election to the next from one major issue to the next. Even when the governments have survived their full term, they have looked unstable most of the time. Survival of governments has been tenuous with money power (for instance, JMM leaders were caught with money in the bank after the vote to save the Narasimha Rao government), offer of softening / settlement of cases pending with courts (in the recent cases of SP and BSP support to the government) coming into play.

6.4 The Increasing Marginalisation of the Marginals: Example of Creation of SEZs

The government initiated policies in 2001 to create SEZs to promote exports — a copy of the Chinese model which they have given up because of the difficulties it created for them. An Act was notified in 2005 and implementation began in 2006. The SEZs are designed to be enclaves where world class infrastructure could be provided and tax concessions granted so that foreigners and the well to do can stay in comfort comparable to that in the rich countries. As a prelude to this, one can already see gated colonies coming up in cities all over the country. Some of the SEZs were supposed to be spread over tens of thousands of acres, the size of big cities. Earlier 65% of the land could be used for non-industrial purposes but after much protest, that was brought down marginally to 50%. The collapse of the real estate markets in 2008 due to the global crisis has slowed down the move to set up SEZs whereas at its peak about 700 of them were planned. The government has cleverly talked of how much investment, output and employment would be generated, to entice the middle classes. But it has not given figures for how much of the existing investment, output and employment in those areas would be destroyed (Kumar, 2008c). In the net, given the capital intensity of new investment, while net investment may rise, net employment is likely to fall and it is not clear that net value addition would rise or fall.

The announcement of SEZs has coincided with the plans to set up of major mega projects like power plants, steel plants, airports and highways and opening up of big mines. All this is resulting in large scale displacement and the SEZs have added to this. Concerted resistance to the displacement began from Singur and Dadri and spread to Nandigram, POSCO, Raigarh, Haryana, Andhra Pradesh and other parts of the country. Large scale privatisation of natural resources — land, river water, underground water, forests, minerals and oil and so on is going on for the last more than a decade. Farmers and tribals who had already been suffering due to their marginalisation have been opposing these policies causing displacement and alienation of their common property resources. If they get together it has the potential to change local politics as in the case of West Bengal.

The ruling class is obsessed with growth irrespective of what it does to the common people. In this context, NDA's experience with the slogan "India shining" during the 2004 election campaign has an important lesson. The NDA thought that the high growth in 2003-04 would pay dividends and advanced elections. At that time the Congress (I) also believed that NDA would do well and became demoralised. However, the widespread unemployment, the rising disparities and the dissatisfaction amongst the common people resulted in the NDA losing power. Both parties were so cut off from

the people that neither the NDA expected to lose nor the Congress (I) expected to come to power. The media and experts also were out of touch with the common people and their predictions and analysis also turned out to be incorrect.

The UPA government during its tenure from 2004 brought in important legislation on Rural Employment Guarantee (MGNREGS) and Right to Information (RTI). The former was strongly resisted by the pro NEP lobby in the government which saw it as an anti-market policy but it was passed in Parliament under pressure from the civil society and the Left. However, there are many reports of corruption reducing the effectiveness of the scheme. RTI was also resisted by vested interests. Recently, several whistle blowers have been killed. The implementation of RTI has been largely placed in the hands of (former) bureaucrats who are now heading the Commissions to oversee the implementation of RTI. They have no accountability to the people but only to their peers so they are only interpreters and hardly push at the boundaries to expand the scope of the Act. Their main qualification for being appointed is that they are trusted by those in power to not rock the boat. In their career they have learnt how to stall and delay inconvenient things. This has made the functioning of RTI complex and reduced its impact. The bureaucracy has resisted the crucial disclosure of the file notings which reveals how a decision is arrived at. The judiciary, important dignitaries and powerful segments of society want to be outside its purview.

There is a mindset problem with the UPA leadership: It has been pro-corporate sector and anti-people. Its return to power in 2009 has emboldened it to follow more unequal policies which marginalise the marginals. Farmer suicides have continued and aggravated during its rule. It has gone in for loan waiver but this was more for electoral reasons than due to any conviction that it needs to help the farmers. It has been talking of corporatising agriculture, commercialising it and going for high cost genetically modified (GM) technology. It is not moved by the aggravation of disparities in the country due to its strategy of "growth at any cost" — the "hand" (the Congress symbol) has not sided with the common man as the election time Congress Party slogan had claimed in 2004.

The various governments since 1991 have claimed that poverty has been on the decline but it has taken on newer forms which the four decades old definition does not take account of (*see* Chapter X). According to official data for 2004-05, 77 per cent of India lives at less than ₹ 20/- per day (GOI, 2007c). There is an attempt to gloss over this by translating this amount into PPP terms but that does double injustice to the poor. PPP is higher than nominal dollars due to poverty and then the poor are told that they are less poor because of PPP (Kumar, 2008a). Finally, per capita food consumption

and malnourishment amongst 50% of women and children does not support the idea of a decline in poverty.

6.5 The Economic Analysis of NEP

The elite sections of society have done very well due to NEP. Their incomes and consumption have gone up sharply. Many more consumer durables are available in the market. The fiscal situation has turned healthy except for the last two years due to the global crisis. Foreign exchange reserves are at record levels. Exports and imports have grown rapidly. The rate of savings and investment have reached new highs. It is claimed by the government that poverty has declined. However, this success also hides many negatives and the picture needs to be balanced. It also needs to be asked whether temporary good growth is good for the long-term health of the economy.

The opening up of the economy is important but not the critical feature of NEP. It is the pro-business aspect of NEP (which has turned India into India Inc.) that underlies the achievements listed above. As mentioned in Chapter II and discussed later in Chapter VII, India has been undergoing a process of One-way globalisation for two-and-a-half centuries. In 1991, one phase of this process came to an end and another one based on marketisation started. Marketisation implies the deeper penetration of market consciousness in institutions and social relationships.

As far as openness of the economy is concerned, India was not closed in 1991. At that time, its ratio of exports and imports to GDP were similar to those of USA, Japan and China though much less than those of Sri Lanka or Germany (Kumar, 1991b). Thus, greater or lesser openness in itself is not a panacea for eliminating the ills of an economy as claimed by the supporters of NEP. Before 1947, Indian economy was open because that suited the colonial masters and it was crisis ridden.

The launch of the NEP saw the rate of growth of the economy fall (Graph 3.1) while the rate of inflation rose substantially (Graphs 3.2 and 3.3). Later, the average rate of growth in the 1990s recovered to the average levels achieved in the 1980s. The rate of inflation also came down after 1996. The situation again changed after 2002-03 with the rate of growth going up sharply and reaching a record 8% per annum over 5 years and then again declined due to the global financial crisis. The rate of inflation has also seen sharp periodic upswing from 2005 onward. The government and the pro-NEP lobby have claimed that India has reached a new growth path and are predicting a double digit growth in the coming decade and more.

However, these claims seem to be exaggerated because there is large scale environmental damage and resistance to the current set of policies, both of which are likely to adversely impact the growth rate. Even otherwise

to claim a new growth path on the basis of a temporary five year spurt seems to be methodologically incorrect. Further, this growth was based on the rapid growth of consumption of the well off sections and of exports. The latter depends on the world economy doing well and the signs are that this is faltering after a temporary revival over the last few years. The dangers of a double dip recession are growing rapidly as the conservative lobbies in the advanced economies are pressing for a reduction of government intervention while the private sector has not picked up steam in those economies. Consumption of the well-off sections is dependent on their expectation of growth and this can take a plunge quickly as the economy slows down.

Investment rate in the economy fell sharply in the early 1990s in spite of all the concessions granted to the private sector (Table 3.6) and rose after 2001. The fiscal deficit initially fell only to rise again to the levels of 1991. Creative accounting by the Finance Ministry kept the deficit down. India's foreign exchange reserves rose sharply as capital began to flow into the country. NRI deposits, FII and FDI inflows all grew. However, along with this has come greater instability because some of these constitute hot money flows that can come in and go out quickly leading to sharp fluctuations in prices. In fact, the FIIs also became the conduit to bring back the black funds held abroad by the Indian rich. The double taxation treaty with Mauritius became a convenient route and was perhaps put into place with this intent. It has been reported that even terrorist organisations have used the stock markets for bringing in funds.

Employment generation in the organised sector declined since the emphasis shifted to capital intensive industries to meet the challenge of globalisation, entry of MNCs and a more open economy. The traditional small scale sector has suffered a decline due to more liberal imports and dilution of reservations meant for them and this has adversely impacted employment generation in the economy. The modern small scale sector that has come up is also highly capital intensive and generates few jobs.

During this period, India has experienced a rapid growth of software industry and exports related to this sector, including IT enabled services. Some attribute this success entirely to the private sector and to the fact of the minimum interference in this sector by the government. However, government assistance in the form of tax cuts and so on cannot be discounted. Be that as may be, the success of this sector has led India to have a healthy current account surplus which has helped finance the trade deficit. This has been shored up by capital flows in the form of FII inflows in substantial amounts in the period after 2000. Soon thereafter, FDI flows also increased rapidly. These have helped the foreign exchange reserves to reach record levels and gave Indian policy makers the (over) confidence to claim that India had acquired a higher international standing. Many cash rich Indian

firms started to buy firms abroad through Mergers and Acquisitions (M & A) and started turning into MNCs. Some of the big acquisitions took place just when the asset prices had reached record high levels and hence were high priced. During the period of intense global crisis in 2008-09, as the valuations of the acquired assets collapsed, Indian firms seemed to be in trouble.

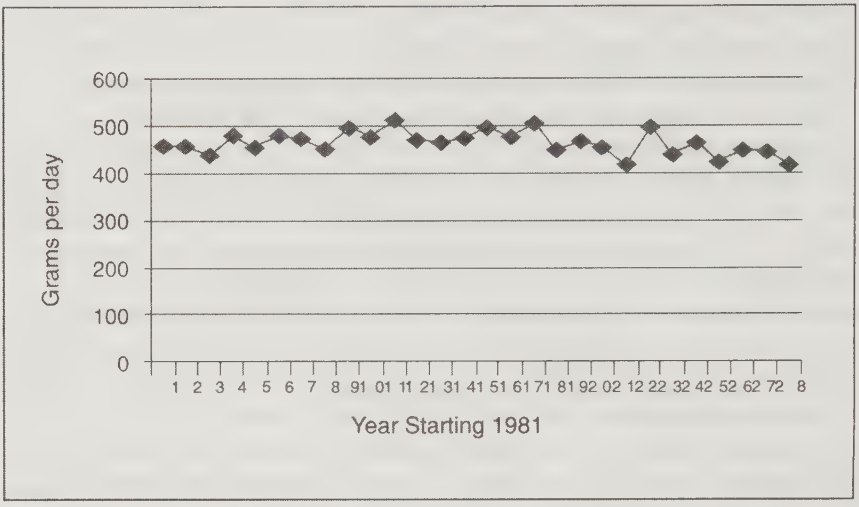
Since 1991, disparities have been allowed to rise rapidly so as to encourage consumption but also to raise the savings rate in the economy (Table 3.6). This has been especially true since 2000-01 with the share of corporate sector in GDP rising dramatically (Kumar, 2007b). Large scale concessions to businesses have been granted to accelerate investments. The tax expenditures (mostly concessions to businesses) have risen sharply to the level of about ₹ 5 lakh crore (Union Budget 2010-11). This is in sharp contrast with the government's constant refrain of shortage of resources for expenditures on schemes designed to benefit the poor and the common man. Expenditure on health and education has consistently remained much below the desired levels (like, 6% of GDP for education). The pro-business sentiments of the governments since 1991 are apparent from their consistent discounting of possibilities of achieving higher growth through redistribution. No wonder, India has remained at the bottom of ladder of development in the world as shown in Table 1.2.

With free market policies and decline of the public sector, investment has been market driven and has largely gone to the corporate sector and the developed parts of the country. Backward areas and agriculture got marginalised further so that the rate of growth of these parts of the economy remained low. The pattern of agriculture has changed to cater to markets and exports. So floriculture, horticulture and pisciculture received precedence over coarse grains and what the poor required.

Per capita food consumption has dropped sharply from its peak levels in 1991 (Graph 3.5). In the mid-1990s and recently, the food stocks with the public sector rose sharply and there were reports of food-grain rotting. The liberalisers tried to explain this by invoking change in food habits with people eating more of vegetable and meat, and so on That there was little change in food habits is brought out by the repeated rise in consumption when the crop is good and the continued malnourishment amongst the poor. Further the well-off sections eat more of grain indirectly through meat, and so on. So, the decline in the per capita consumption is due to lack of purchasing power with the poor and their reduced consumption resulting in higher public food stocks. The partial dismantling of the PDS and bringing the issue price close to the market price are also responsible for the accumulation of the stocks while the poor go hungry.

Graph 3.5

Per capita food availability 1981 to 2008



(*Source:* Economic Survey, 2007-08.)

The differential in the rate of growth of agriculture and non-agriculture increased. This led to growing disparities between agriculture and non-agriculture and became the cause of rise of all forms of disparities — across states, between the rural and urban areas, organised and unorganised sectors and so on. In brief, while the average rate of growth remained more or less the same in the 1980s and the 1990s (Graph 3.1) disparities increased in the latter period.

Customs duties were drastically reduced to enable cheaper imports to come in. Simultaneously, the rupee was devalued *vis-a-vis* the dollar since the rupee was supposed to be overvalued. This made exports cheaper and imports more expensive and thereby raised the rate of inflation but also gave some protection to indigenous producers.

As mentioned earlier, following the BOP crisis in 1990-91, the country approached the IMF for adjustment and this required following conditionalities. These came in the form of a stabilisation package for the short and the medium run and required the macroeconomic conditions to be set right. Thus, the fiscal deficit seen as the cause of macro imbalances was required to be drastically curtailed. Direct taxes had to be reduced so as to give incentives to investments and customs duties reduced to allow opening up. In brief, revenue had to be sacrificed while deficit had to be reduced and this was only feasible if expenditures were cut even more drastically. So, subsidies, social sector expenditures, capital expenditures, transfers to the States and support to the public sector had to be reduced. Further, disinvestment of

shares of public sector and privatisation had to be carried out to get more funds.

One of the conditionalities imposed is that the country has long-term structural problems and should approach the World Bank for implementation of the Structural Adjustment Policies (SAP). India too went in 1991 to the World Bank and accepted its package and obtained the Structure Adjustment Loans (SAL). The idea underlying this package is that the economy needs to globalise and adjust to the global economy. Thus, independent policies are not feasible. Since the global economy is dominated by the interest of global MNCs, the economy has to be adjusted to suit their interest so as to become attractive to get their investments and India implemented this package (*see also* Chapter V, Section 1).

Following this understanding, MRTP, FERA and small-scale industry reservation were diluted or eliminated, concessions were granted in taxation, Phased Manufacturing Programme (PMP) and dividend balancing imposed on foreign firms and other such steps were eliminated. States vied with each other to attract capital and offered concessions in terms of taxes, land, water and electricity. Once the IMF and the World Bank gave the signal to international capital that India was compliant, credit began to flow again and the BOP crisis eased. Indian PM, Chief Ministers and Ministers became travelling salesmen selling the India story to attract funds.

Acceptance of the package was easy since Indian ruling elite did not have its own alternative. Further, the middle classes were ready for change because of the failures of the previous policies and they were told that they could have a better lifestyle with all manner of consumer goods allowed to enter the Indian market. They could ape the Western consumerist life style. Consumer credit was allowed to grow rapidly to enable them to buy even if they did not have the savings for it. Salaries of the organised sector were liberalised. Till 1991 there was an upper limit of ₹ 3,12,000 on annual managerial salaries in the corporate sector. This was done away with and the salaries of this class rose by more than hundred times to reach into crores by the end of the decade. In contrast, the minimum wage only went up by a factor of around three. Disparities grew rapidly.

6.5.1 Domination of Finance in Policy Making

With the launch of NEP in 1991, the stock markets rose sharply. They were stimulated directly by the tax concessions, such as the elimination of the wealth tax on shares and cutting of various direct taxes on businesses. Indirectly, the Finance Minister's statement in Parliament that he would not lose sleep over the rise of the stock markets signalled to the market that the governmet would not intervene to stop the speculative binge going on. Thus, it became safe to speculate and manipulate the market — even the share prices

of companies with huge accumulated losses rose dramatically. The rate of growth of the economy had declined and the profitability of companies had taken a hit but the stock markets rose sharply between July 1991 and April 1992 (when they collapsed).

It emerged that the FM should have been losing sleep since there was massive manipulation of the financial markets and fraud on the part of Harshad Mehta, the Big Bull, and his friends and the potential for losses and the loss of confidence in the country's financial system was large. The Jankiraman Committee set up by the Government in 1992 revealed these facts. The Committee estimated that the losses were to the tune of ₹ 3,128 crore and many were implicated in the fraud committed on the financial system (including the RBI). It is reported that Mr. Mehta was a favourite of the FM and they met just a few days before the budget of 1992 was to be presented and on the advice of Mr. Mehta, the wealth tax on shares had been eliminated. Of course, Mr. Mehta made a killing in the stock markets with prior knowledge of this likely move and fuelled speculation.

A Joint Parliamentary Committee (JPC) was set up to investigate the matter but it failed to pinpoint any serious systemic problems. The income tax official who initiated the raid on Mr. Harshad Mehta on the day the budget was being presented was not allowed to appear before the JPC. A political compromise had been worked out to protect the FM and the exercise ended up discrediting future JPCs also — an example of discrediting of institutions due to manipulations. There were dramatic accusations about bribes in suitcases being paid to the top political bosses but nothing concrete came out of that also.

With the deregulation of the financial markets, problems have appeared at regular intervals. The markets have collapsed several times since 1991. Large numbers of small investors have lost money. With deregulation, the frequency with which business related fraud has surfaced has increased — the most recent major example is that of Satyam and allotment of the 2G spectrum (*see* Chapter VIII for more detailed discussion). In the stock markets a large number of new companies have been floated during booms only to disappear with the public's money — witness the booms since 1991 in timber and forestry, granite and marble, dot com and real estate. In the name of deregulation, the government has not taken action against such fraud, giving rise to more such cases. Satyam is an example of big firms taking investors for a ride. In the case of Reliance Industries which split after its patriarch's death, new companies have been floated, merged, renamed and separated in such a manner that the public has lost while the owners have gone on to become the richest Indians.

Public financial institutions like, UTI, have got into trouble since they were told to cushion the markets' fall and / or prevent their rapid decline.

They have had to operate in a counter cyclical fashion and consequently borne losses. This has enabled successful sharp practices by the private operators in league with the corrupt officials of the financial institutions to make big profits and helped in successful one way speculation. Finally, the government has decided to measure success of its policies by the level the stock market reaches, it has given an upward bias to the stock markets at the expense of the public sector institutions and the small investors.

The NEP began with a devaluation of the currency by the exact amount (22%) recommended by the World Bank in its report (World Bank, 1991). NEP have been crisis driven making acceptance of conditionalities appear to be inevitable and making a national debate on policies irrelevant. No attempt at a national consensus was tried — it was stated that there was no time and anyway all the reports prepared by experts in the 1980s had been suggesting these policies. This pattern of forcing policies on the nation has been repeated again and again since 1991, as in the case of WTO and patents regime. The policy changes by now are all encompassing and too numerous to mention. The extensive nature of change was intended from the beginning as discussed in GOI (1993a) and whose theoretical base lies in the so called "Washington Consensus" (*see* Williamson, 1989). The matrix of rapid policy changes between 1991 and1993 are given in Kumar (1994a) and in various issues of Alternative Economic Survey Group (AESG). They leave the public totally confused even though they affect their future in vital ways.

Many committees were set up to formulate the details of policies under the NEP. These were peopled by those who had been cultivated by the World Bank and IMF since the mid-1970s and who were willing to do their bidding. Further, the terms of reference of the committees set up were such that they could propose in the reports what the IMF and the World Bank wanted. For instance, the Narasimham Committee on Financial Sector Reforms had its terms of reference defined such that they were the questions, the answers to which were contained in the World Bank Report and that is what the Committee reproduced.

Policy making quickly passed into the hands of people from the world of finance and those who followed the World Bank and the IMF line. This was also an international trend given the deregulation of the markets that was taking place and especially in the US. The entire attempt has been to channelise savings to the financial markets and the corporate sector. In India, attempts have been made to move pension funds, into the stock markets and encourage banks to move funds there. A large number of instruments have been created to siphon funds into the financial markets and into real estate. All this has fuelled speculative activities that have a tendency to destabilise the real economy. When returns on these instruments are high then it moves investments away from the real sectors and especially agriculture and the

small scale sectors or the rural areas and backward states where the bulk of the population is employed. Hence, this kind of market based investment results in larger disparities and that has happened in the post-1991 period.

The liberalisers have tried hard to move the economy to capital account convertibility. Since 1991, the economy has moved from trade account convertibility to current account convertibility and to capital account convertibility for foreigners but not for Indians. In 1997, there was pressure to move towards capital account convertibility but the South East Asian financial crisis erupted in mid-1997. Only Malaysia, moving against the advice of IMF and the US stopped capital movements, escaped the drastic consequences suffered by the other countries of that region. India also escaped lightly. Talk of capital account convertibility stopped for a while. The IMF and the US later admitted their mistake and lauded the Malaysian action as the correct one. It was also felt that capital account convertibility for India would be premature. However, again this move was revived in 2006-07 in the face of rapidly rising reserves and the large capital flows into the economy. However, before this could be implemented the global crisis erupted from late 2007 and the move was shelved. Clearly, the pro-liberalisers have been moving blindly without considering the consequences of a headlong march to open markets, independent of the stage of India's development and the consequences for the economy that remains largely under developed.

6.5.2 Rapid Changes in Fiscal and Other Policies

Major changes were introduced in Fiscal Policies (*see also* Chapter V, Section 3). As already mentioned, customs duties were reduced in 1991 to open the economy. The process of reduction continued in several phases and accelerated as the provisions of WTO got implemented. Goods that were on the banned list, like, gold, were put on the permitted list. All this has led to the reduction both in the peak and the average tariff levels in the country. This meant that what was the most buoyant source of revenue in the 1980s saw its share of tax revenue drop sharply. In the case of excise duties, MODVAT was extended to more commodities and its name changed to CENVAT. The method of calculation of sales taxes was changed to VAT in the early part of the first decade of this century and slowly it has spread to more and more States.

Regarding direct taxes, the rates have been brought down substantially. The argument has been that this would give an incentive to investors and lead to higher investments and help attract foreign capital. Many components of wealth have been removed from wealth taxation so that this tax now collects a negligible amount. Similarly, estate duty and gift tax hardly collect any revenue. The same is the case with expenditure tax. Services have progressively been brought under the indirect tax net as services tax. Fringe

benefits tax and transactions tax have also been introduced. In brief, the tax structure has seen a major overhaul during the period.

Due to these changes, especially, the reduction in tax rates, the tax-GDP ratio declined (Table 3.6) and led to problems of raising resources for development, so the budgetary crisis of 1990-91 continued during the 1990s. To present a better picture, the government has often claimed higher revenue and lesser expenditures so that when the budget is presented, the deficits look smaller than they turn out to be when the actual figures come a few years later.

The Centre cut its expenditures on social sectors, capital account and so on. The situation only started improving after 2001 when the tax-GDP ratio recovered to its level in 1991 due to rise in direct tax collections based on the increase in share of incomes of the well-off sections. Since the Centre collects a major portion of the taxes and then passes them to the States, one way to reduce the Central deficit was to slow down the transfers to the States. Consequently, the States showed large deficits and had to curtail their expenditures on capital account and social sectors. The deficit in the Centre's budget was converted to deficits in the State's budgets and they were characterised as less than responsible.

These moves have led to the erosion of the federal character of the country by making the States open to the dictates of the Centre. The manner of functioning of the Finance Commissions has further eroded the autonomy of the States. The Finance Commission is a constitutional body which is designed to maintain the federal character of the nation, but increasingly they have been found to serve the interest of the Centre which sets them up and fixes their terms of reference. The Finance Commissions have not helped the States to get buoyant tax resources so that they have to continue to depend on the Centre and its largesse and therefore are open to pressures from it. Not that the States have not acted irresponsibly but should that have been a reason for truncating the federal character of the nation? The way the FRBM act has been forced on the States and the manner in which a uniform VAT and now the GST are being forced on them (even though it is being implemented through an empowered committee of States Finance Ministers) are some examples of the dilution of the federal character of the country.

Not that the situation in J. & K. or the North East can be generalised but the demand for autonomy is strong in these states. Hopefully, such situations would not arise in other States which are economically backward and whose resources are inadequate for their development. But can this be ruled out in the future if the kind of revolt by the advanced states against greater transfers to the poorer states at the time of the presentation of the Eleventh Finance Commission report again takes place. Finally, the market undoes much of the impact of the Finance Commissions and what the state interven-

tion in the economy attempts to achieve with regard to equity and this trend has aggravated after 1991 (Kumar, 2008b).

Corporation tax collection has shown high revenue buoyancy since 2001. This coincides with the rapid rise in the share of profits of corporate sector in GDP (Kumar, 2007b). In other words, this rise in tax collection is based on a rapid increase in disparities in the economy since the corporate profits accrue to a tiny minority of the citizens. This is also the reason for the rapid rise in the savings propensity in the economy during this period. Some have argued that the rapid rise in corporation tax is a result of better compliance but this is not found to be true (Kumar, 2007b). Corporate incomes have also risen due to the huge subsidies hidden in the form of concessions, called Tax Expenditures. In the Union Budget 2010-11, they are shown to be ₹ 5 lakh crore. Due to these concessions, the tax rate for the corporate sector is around 20 per cent. Here also, the small scale and the public sectors pay a higher average tax rate than paid by the large scale private sector companies, especially in software sector.

As a part of the process of strategic retreat of the state, Public Sector Units (PSUs) have been privatised since 1991. The proceeds of privatisation have been used to provide budgetary support to lower the budget deficit. The basic role of the PSUs in serving a social purpose (Section 5, Chapter 5) has been diluted and they are supposed to function like the private sector and generate profits (a contradiction in terms) and compete with the private sector. This is like making a fighter fight with one hand tied up. While the PSUs have had many shortcomings, their role in nation building and in helping reduce poverty has been significant. The private sector or the public sector functioning like the private sector cannot play that role.

Strategically, corruption has been promoted by the ruling elite to make the PSUs look inefficient so that they lose public credibility and that made privatisation not only feasible but also cheap. Losses or low profitability meant that these companies were valued much lower than they ought to have been. The decline of the public sector has meant that the poor are left at the mercy of the market where they cannot pay the price demanded. Consider, for instance, AIIMS, the premier hospital, that has been allowed to run itself down and at the same time, new private hospitals have come up that have lured away the best doctors from the former. AIIMS is charging more but providing poorer services. The markets are thus getting segmented between those for the well off who get good services from the private sector and the PSUs catering to the poor and providing poorer services (as in the case of health services). The cross subsidy that was possible by charging a higher price to the better off and using that to keep the price for the poor low is now not feasible. For example, PSU banks required to generate profits have had

to curtail their rural and semi-rural branches and focus more on the commercial and urban branches.

The privatisation of PSU banks and insurance companies and changes in labour legislation have been resisted for a long time both inside and outside Parliament and could not be forced by the government. Industry has been demanding the weakening of the trade unions so that they can practise hire and fire. It has been argued that this would allow for flexibility in functioning and as wages fall, more employment would get generated. This argument is flawed since the unorganised sector which constitutes 93% of the workforce, offers low salaries and works on hire and fire but this has not meant more efficiency or employment generation. Only 7% of the work force is in the organised sector and where there is some protection and this cannot be the cause of the entire problem of labour and inefficiency in the country.

Privatisation in health, education and other such sectors of vital interest to the common people has meant that the prices in these sectors have risen. The access of the marginals to these public services have declined and they have had to resort to the private sector so that their cost of living has risen sharply. Thus, in spite of higher incomes, they are worse off. The government using the forty-year-old definition of the poverty line has claimed a decline in poverty but because of a change in its character, it is hard to accept that it has declined (Chapter X)

The demand for changes in labour legislation has been to weaken labour so as to keep wages down. This goal has been largely achieved in the post-1991 phase due to the ideological shift in the country. Media and the courts have been taking an anti-labour stance. Right to protest and to strike has been severely curtailed, so that labour's gains over the preceding half a century have been eroded and the situation has become more and more one-sided. This is not to argue that labour has done everything correctly. Organised labour has been economistic, not provided leadership to the entire working class and corruption has also seeped into it. But these short-comings pale into insignificance compared to the problems created by capital and yet it is lionised and has got all the concessions.

In 2008-09, the Indian economy was adversely affected by the global economic crisis. Industry, services, exports, imports, foreign exchange reserves, employment and investment were affected. While the well-off sections lost value of their assets but the impact on the lives of the poor was more serious. The government went into a denial mode by first arguing that there would be decoupling between the Indian and the advanced economies. Then it kept arguing that because our banks are regulated, there would not be much of an impact and the economy would grow at 8 to 9 per cent. This has been brought down to 7.1 per cent. However, the economy was growing

at perhaps close to zero per cent but due to the impending elections, the government was not willing to admit this reality.

The black economy has continued to grow through this period and hampered economic development. The number of scams has grown exponentially in the post-independence period (Kumar, 1999). Most of them have not got resolved, for example Bofors. This is a result of the hold of the businessmen over the political class and the executive (*see* Chapter VIII). Increasing number of cases of lack of accountability and possibly corruption have surfaced against the judiciary. Cases in courts have been pending and under trials are often in jail for far longer than any punishment they may have been awarded if convicted. All this has undermined the sense of social justice in the country. Poverty, disparity and lack of social justice have resulted in the growing impact of the Maoist movements over large swathes of India. While in 1991, 55 districts were supposed to be affected, now this number has increased to about 170 districts (that is one third of the country).

The growing corruption in India has dented governance by degrading the bureaucracy, police and the judiciary. During the Emergency, Mrs. Gandhi floated the idea of a "committed bureaucracy". The idea was catchy since the bureaucracy set up by the British was pro well-off sections and often seen to be an impediment in the implementation of progressive policies. However, given her narrow vision of the national interest, it meant a bureaucracy committed to her interest. Progressively, other leaders adopted this stratagem and there has been serious misuse of the bureaucracy and erosion in its stature. As soon as a new government comes to power, wholesale changes are announced in top postings. This has sent a signal to the bureaucrats, police and others that they need to ally with those in power otherwise they will be shunted around or marginalised.

7. Conclusion

This chapter presents some key developments in post-Independence India in a holistic manner by bringing together the economic, political, historical, social and international developments. The narrative shows (a) how complex the situation has been, (b) how the colonial disruption has continued, and (c) how much out of control the events have been for the rulers who have increasingly became more and more narrowly focused on their interest, losing the vision of the national movement and working to the detriment of the nation.

It emerges that independent India has gone through a full circle of policies. At the time of independence, the British had left the nation weak because they had only served their own narrow interest. With independence the policies changed and the state was supposed to work in the wider interest of the people but it adopted a top down approach. Policies failed due to this

flawed approach and the growth of the black economy. The result was a change in policies in 1991 in favour of a narrow elite segment of society linked to business. The year 2008 again saw massive state intervention in the economy to rescue the corporate sector and this has brought into question the strategy of dependence on unregulated markets. It emerges from the presentation in this chapter that the leadership has continued to borrow Western models of development which are not suited to India's needs.

It is pointed out that the 1950s laid the ground for an independent India and these policies have many achievements to their credit. The sharpest increase in the rates of growth on various fronts came in this period not only because of a low base but because the colonial yoke was thrown off and people had faith in the leadership. However, these policies based substantially on copying Western modernity only constituted a partially independent path of development. They were focused on trickle down and big projects, needed to catch up with the West. In the 1960s, this strategy started unravelling and the country went from crisis to crisis in the next two decades. It is shown that these policies were turned on their head in 1991with the launch of NEP — a change in policy paradigm. The result is a strategic retreat of the state in favour of marketisation.

NEP have many successes to their credit but this hides the growing divide in the population and the marginalisation of the marginals. Political and social problems and environmental degradation are on the rise so that these policies cannot continue for long. It is argued that this kind of temporary good growth is not desirable in the long run because it is destroying the social fabric.

From the beginning, in 1991, there was opposition to NEP by those who saw that they were anti-people. Many critiques were presented by various groups and individuals. At the national level there was a move to draft alternative policies as a mobilisational tool against NEP. The alternative policies were presented in the shape of Alternative Budgets in 1993 and 1994 which showed how resources could be mobilised and spent without sacrificing the interest of the common people or lowering the growth of the economy. The critique they provided has been justified by the evolving events and was influential in building resistance and producing ideas, later pursued by others.

However, the opposition parties, intellectuals and citizen's groups that were associated with the effort of producing a national alternative were themselves confused and did not pursue the alternatives systematically. The confusion stemmed partly from the failure of communism in China and the Soviet Union. This confusion was later visible when these opposition parties came to power and they pursued no different policies than what was initiated as NEP. The inability to work out alternatives has been a big failure not only of the intellectuals but also the leadership that could not see issues with clarity.

This chapter points to the difficulties in India's democratic path and the reasons for the rapid dissipation of the national spirit created during the national movement after independence. The blame lies mostly with the ruling elite which was narrowly focused even during the national movement and which increasingly became self centred and worked for its narrow interest. Its conception of the nation has been narrow and exclusivist, centred mainly on the vested interests. As it faced failures, rather than evolve its own solutions it increasingly copied (blindly) from the West, including their mistakes and these led to further failures. As the situation slipped out of control, power became an end in itself and politics declined to become short run, competitive and sectarian and the leadership's quality degenerated rapidly from one decade to the next.

The unfolding events suggest that India's democracy is truncated and becoming more and more formalistic — confined to vote and show of strength. Institutions of democracy have weakened and become mere shells — weak in content. In the process, the nation's commitment to democracy has weakened. Policies that are framed or decisions that are taken are hardly implemented. This explains "why the obvious does not happen" in India. There is not a seminar or a plan document that does not talk of improving the lot of the poor. Why has the process been so slow? Because the poor are marginal and there is lack of implementation. This is the difference with China where decisions, right or wrong are implemented. Perhaps this was also the case in India in the 1950s when the newly independent nation enthusiastically took decisions and mostly carried them out. Now, with the elite ruling class seen to be acting in its narrow interest, the public has become cynical and implementation has deteriorated. India has been increasingly characterised by unsuccessful state interventions based on borrowed solutions (including mistakes). Not only is this a failure of the leadership but also the result of the functioning of the black economy promoted by the elite which has led to policy failure (*see* Chapter VIII).

Some Important Dates for India from the Time of Independence

[1906, in Calcutta, Dadabhai Naoroji, President of the Congress Party called for self government or Swaraj.

1929, in Lahore, call for Purna Swaraj.

1944, *Plan of Economic Development for India* (Bombay Plan by FICCI Committee under Thakurdas)].

1947, 15 August	India gains Independence; Princely States incorporated, Hyderabad forced to merge.
1947, October	Pakistani invasion of Kashmir, UN Assisted ceasefire and Line of Actual Control demarcated.
1947	Cooperative movement given importance for rural development.
	Zamindari Abolition initiated.
1948, August	Atomic Energy Commission set up, with Homi J. Bhabha as Chairman.
	Industrial Policy framed.
1950, 26 January	The Constitution of India comes into force; Election Commission created.
1950, 15 March	The Planning Commission is established.
1951	The Industrial Development and Regulation Act (IRDA) is passed.
1951, October to 1952, February	Elections for the 1st Lok Sabha conducted.
1951 to 1956	First Five Year Plan.
1952	CSIR and first IIT set up at Kharagpur.
	Community Development Programme is instituted.
1954	Department of Atomic Energy set up.
	Panch Sheel Agreement with China and others signed.
1955	State Bank of India created by takeover of the Imperial Bank of India.
	Oil and Natural Gas Directorate set up under Ministry of Natural Resources & Scientific Research; converted to Oil and Natural Gas Commission in 1959.
	Anti-Untouchability Law passed.
	Black economy estimated to be 4-5% of GDP (Nichoas Kaldor).
1956	India starts receiving aid (mainly food) under PL-480 Scheme from USA.
1956, August	India's first nuclear reactor in Trombay becomes critical.
1956, November	States Reorganisation Act passed.
1956	Zamindari Abolition Achieved in most States.
	Bhoodan Movement launched by Vinoba Bhave to give land to landless.
	Industrial Policy Resolution passed.

	Balwantrai Mehta Committee set up to look into the working of local bodies and to make recommendations for its improvement.
1956-57	Drought and inflation.
1956 to 1961	Second Five Year Plan.
1958, March	Scientific Policy Resolution passed.
1959 to 1962	Panchayati Raj Legislation introduced.
1959	Indian Oil set up.
	China USSR skirmishes and rift between them becomes deep.
	Dalai Lama escapes Tibet and is given asylum by India. China objects to this as interference in its affairs and India China rift deepens.
1961	Goa liberated from Portuguese rule and made part of India.
	The Non-Aligned Movement (NAM) founded in Belgrade.
1961 to 1966	Third Five Year Plan.
1962, 8 September	China attacks India.
1962	Indian National Committee for Space Research (INCOSPAR) set up.
	Change to decimal coinage and metric system.
	Planning Commission's Working Group estimated poverty at 1960 / 61 prices to be ₹ 20 / - and ₹ 25/- per month for rural and urban areas respectively.
1963	PM's letter to CMs to clean up public life.
1964	Nehru's death; Sharstri becomes PM.
	Shrimavo-Shastri Pact on Tamils in Sri Lanka signed.
	Sheikh Abdullah released from prison; questions accession to India.
1965, January	State Food Trading Corporation created.
1965, August-September	Indo-Pak War.
1965	Agricultural Prices Commission set up.
1965-67	Big drought in Eastern India; Food shortages and large PL 480 imports.
1966	Tashkent Treaty with Pak: Shastri dies; Indira Gandhi becomes PM.
	Rapid inflation and Major devaluation of the currency.

1966 , November	Anti Cow Slaughter agitation by Sadhus; turned violent, entered Parliament; marked the beginning of the distancing of Parliament from the people. Demonstrators were held back farther and farther; boat club lawns, then India gate and then back of Red Fort and Jantar Mantar with no facilities. The state has not thought it fit to provide basic facilities to those who are coming to protest in front of Parliament. Increasingly, anyone opposing is considered an enemy of the state and at best has to be tolerated.
1966 to 1969	Planning process temporarily suspended.
1967	Rupee link with $ becomes stronger while that with Pound weakens.
	Green Revolution strategy in agriculture pushed strongly.
	General election. Coalitions emerge in States. Horse trading in legislatures begins (Aya Ram, Gaya Ram phenomenon).
	Start of Maoist movement from Naxalbari on 24 May, 1967.
1969	Nationalisation of 14 major private commercial banks.
	The Monopolies and Restrictive Trade Practices (MRTP) Act passed.
	Privy Purse abolished.
1969 to 1974	Fourth Five Year Plan.
1970	Black economy estimated to be 7% of GDP (Wanchoo Committee).
1971	Highest marginal income tax rate of 97.5%.
	MRTP Commission appointed to implement the MRTP Act.
	Collapse of the Bretton Woods system; rupee pegged to dollar.
1971, December	Liberation of Bangladesh.
1971	Indira Gandhi wins general elections with the "*garibi hatao*" plank.
1972	Shimla Pact between India and Pakistan
	Nationalisation of General Insurance companies
	Mrs Gandhi told about need to not miss the electronics revolution. Steps initiated to initiate work in this field and in computerisation.
1973	Nationalisation of the Coal industry.
1973-74	Major drought and inflation.

1973	Nationalisation of wholesale trade in wheat.
	The Foreign Exchange Regulation Act (FERA) is passed.
	The Planning Commission Task Force on Agrarian Relations.
	Yom Kippur Arab Israel War; International Oil price shock.
1974	Navnirman Movement in Gujarat.
	Hathi Commission Report; transformation of drug sector.
	FERA passed and required MNCs to dilute equity.
	Fifth Five Year Plan focusing on poverty alleviation is initiated.
1974, May	All-India Railway strike.
1974	Start of the JP (Jayaprakash Narayan) Movement. Call for total revolution.
	End of Vietnam War.
1975	Death of Mao tse Tung. Beginning of the 180 degree turn in China.
	Rise of Bhindranwale in Punjab; Start of demand for separate state.
1975, 26 June	Allahabad High Court declares Mrs. Gandhi's election void.
	State of Internal Emergency declared by Mrs. Gandhi (MISA).
	Almost the entire opposition arrested.
	Rise of Sanjay Gandhi and the Rightward drift in policies starts.
1975-76	Launch of the Twenty Point Programme as a populist measure.
	Forced family planning programme attempted which alienates people.
	42nd amendment suspending civil liberties.
1976	IBM and Coca Cola leave India rather than dilute equity.
	Oil marketing and refining companies nationalised.
1977	Mrs. Gandhi orders elections since she was confidant that the opposition was decimated. Coterie around her had completely insulated her from people. CPM comes to power in Bengal; launches Bargardar movement.
1977, March	State of Internal Emergency lifted.
	Morarji Desai sworn in as PM, heading Janata Govt.
1977	Talk of rolling plans, or ex-post Planning. Public sector de-emphasised.

1979	Break up of the Janata Government due to internal problems.
	Soviet entry into Afghanistan and it is trapped there during the Eighties.
	US and Pakistan arm Taliban and encourage religious fundamentalism in Afghanistan to counter Soviet domination.
	Major drought and rapid price rise weakening the Janata government further.
	Aytollah Khomeini ascends to power with the overthrow of Shah of Iran.
	US gets embroiled in Iran and starts playing the Iraq card to counter it.
	Assam movement starts with the demand that the government identify foreign citizens in Assam.
1980, 15 January	Indira Gandhi sworn in as PM.
1980	India goes to the IMF for loan and accepts conditionalities.
	Sarkaria Commission set up to look into Centre-states relations.
	Rise of BSP in North India; political party of Dalits; grows rapidly.
	Terrorist movement begins in Punjab; students involved; separation goal.
	Later Akal Takth occupied and Gurudwaras used.
1980-81	Black Economy estimated to be 18-21 per cent of GDP (NIPFP study).
1980 to 1985	Sixth Five Year Plan; slow economic liberalisation initiated.
1981, February	Maruti Udyog Limited (MUL) is established.
1982	Start of consumerism with lifting of import restrictions on Colour TVs, etc.
	Global Banking crisis with default by Latin American countries. Failure of the World Bank "Brazilian model" of development becomes clear.
1983	The IMF loans are repaid.
1984, June	Operation Bluestar at the Golden Temple, Amritsar.
1984, 31 October	Indira Gandhi assassinated; Rajiv Gandhi sworn in as PM.
	Anti Sikh riots in North India; thousands burnt / killed.
1984 December	Bhopal Gas leak; largest industrial accident; huge population affected.

1985 to 1989	Seventh Five Year Plan.
1986	MODVAT introduced for Excise collection for some items.
	Opening of gates in Ayodhya; Congress practices soft Hindutva.
1986, September	The GATT Round at Puenta del Este, Uruguay launched.
1987	Bofors corruption scandal erupts; Rajiv Gandhi accused of receiving payoffs and people around him involved in corruption; Govt. becomes ineffective.
	Major drought and inflation.
	Indian Peace Keeping Force (IPKF) sent to Sri Lanka.
1989, 2 December	V. P. Singh sworn in as PM.
1989	Insurgency in Jammu and Kashmir accelerates.
	Collapse of the East European Bloc.
1989 to 1991	Iraq war in the Gulf; rise in petro goods prices and foreign exchange crisis.
1990, August	Mandal Commission Report implementation announced and turmoil.
	BJP Rath Yatra initiated.
1990	Dunkel Draft for Trade negotiations under GATT.
	Collapse of the Soviet Union Block — E. European States.
	India's trade with the Soviet Bloc collapses and adds to BOP problems.
1990, November	V. P. Singh Govt. collapses; Economic difficulties grow.
	Chandrashekhar Govt. backed by Rajiv comes to power for a few months.
1990 to 1992	Annual Plans are undertaken due to political uncertainty in India.
1991	Gold reserves mortgaged to get foreign exchange.
1991, 21 May	Rajiv Gandhi assassinated.
1991, 20 June	P. V. Narasimha Rao sworn in as PM.
1991	New Economic Policy based on marketisation initiated on the plea of TINA; policies shift rightward; independent policies no more feasible; with retreat of state, economic fluctuations increase; fiscal deficit cut.
1991, June-July	Devaluation of Re. by 22%; as suggested by World Bank.
1991, December	Collapse of Soviet Union and of rupee trade; trade difficulties aggravate.

1992	Panchayati Raj Act passed through 73rd Constitutional Amendment.
1992, 6 April	Stock market collapse; Harshad Mehta Scam; Janakiraman Committee estimates loss of ₹ 3,000 crore (Others suggest ₹ 30,000 crore).
1992	Tax / GDP ratio falls; customs duties cut sharply; PMP and dividend balancing eliminated; the Capital Issues (Control) Act is abolished.
	Securities and Exchange Board of India (SEBI) given statutory powers.
	Equity markets opened to investment by FIIs.
	Indian firms allowed to raise capital on international markets through Global Depository Receipts (GDRs).
	Disinvestment starts. CAG report suggests manipulation by MNCs.
	Ceiling of ₹ 3,12,000 per annum on corporate salaries lifted and they start shooting up; Gold import opened. FDI in consumer goods allowed.
	Babri Masjid demolished; communal riots; Mumbai bomb blasts follow. Investment climate deteriorates due to scams, stock market fluctuations and riots.
	Foreign Exchange reserves rise due to borrowing long-term. Concessions offered to NRIs to bring in money.
1992 to 1997	Eighth Five Year Plan.
1993	Enron allowed in Energy sector to encourage FDI in infrastructure.
1993 and 1994, February	Alternative Budget proposed giving alternative economic policies.
1993	The Panchayati Raj Act is passed.
	Labour legislation sought to be changed; resistance from Unions and Left.
	Media and Courts turn increasingly anti-labour; earlier judgments reversed.
1994, April	Marrakesh Agreement for creation of WTO signed.
1995, 1 January	The WTO comes into being.
1995-96	Black Economy estimated to be 40% of GDP.

1996	Direct tax GDP ratio rises due to schemes like, 1 for 5 and 1 for 6.
	Congress coalition government loses and United Front govt. comes to power.
	Consensus amongst parties from the Left to the Right due to a lack of an alternative; Jyoti Basu does not become PM; called historic blunder.
	Ideologies diluted, any party can ally with any other; leaders switch alliances and parties.
1997	Capital Account convertibility proposed by Tarapore Committee.
	Southeast Asian Financial Crisis; India escapes effect because convertibility not implemented.
1997 to 2002	Ninth Five Year Plan launched.
1998	UTI collapse due to manipulations of financial markets by government.
	UF government collapses and NDA headed by BJP comes to power.
	Nuclear Bomb tested by India and Pakistan; International sanctions imposed.
1999	Vajpayee bus ride to Lahore and improving Indo-Pak relations.
1999, May	Kargil war started; deterioration in Indo-Pak relations.
1999, December	Seattle Round of WTO fails. Massive anti-globalisation protests in Seattle.
1999-2000	1,400 commodities opened under WTO.
	Agriculture hurt badly. Farmer's suicides accelerate.
2000	CENVAT in place of MODVAT for Excise.
	Sarva Shiksha Abhiyan; Programme for Universal Elementary Education.
	"Growth at any cost" strategy initiated; savings and investment rate rise rapidly due to rapid rise in disparities.
2000, 5 November	Irom Sharmila starts her fast against the AFSPA.
2001	Attack on Parliament and further deterioration in Indo-Pak relations.
	SC gives direction that Mid Day meal schemes be started from June 2002.
	Corporation tax collections rise dramatically; Inequalities rise fast.

2002 to 2007	Tenth Five Year Plan.
2004	NDA loses and UPA comes to power. Sonia Gandhi in face of stiff resistance decides to forgo becoming PM; makes a non-political person PM.
2005	National Rural Employment Guarantee Act (NREGA) passed.
2005, April	VAT introduced for collection of Sales Tax.
2005	Special Economic Zone (SEZ) Act passed; RTI Act passed.
2006	Capital Account Convertibility proposed but not implemented
2007 to 2012	Eleventh Five Year Plan.
2007	Beginning of the Global financial crisis.
	Following global price rise in commodities, inflation in India rises.
2008, January	Stock market collapses due to global crisis; India not hard hit because capital account convertibility not implemented; FRBM implementation deferred with rise in Revenue and Fiscal deficits.
	2G Spectrum Allocation scam comes to light.
2008	Loan waiver proposed for farmers.
2008, September	Left withdraws support to UPA on Nuclear deal. SP support manipulated by Congress (I) to stay in power.
2009, June	UPA wins again and comes to power.
2009	Recovery from crisis; China becomes biggest trading partner; US displaced.
	Major drought and food price inflation.

Chapter IV

Continuing Disruptions, Crisis of Leadership and Phases of the Economy since Independence

1. Introduction

Chapter III presented some major developments in India since Independence and global developments with a bearing on the nation. They need to be analysed and understood in terms of the pattern they display. These patterns are not necessarily either decade-wise or following a decadal pattern even though several major events and their consequences for society coincided with the decadal pattern. For instance, the Chinese war in 1962; Bangladesh war in 1971; Afghanistan-related events beginning 1979, the oil shock and India having to go to the IMF in 1980 and acceptance of its conditionalities; the oil crisis of 1990 resulting in an economic crisis in India and the launch of NEP in 1991; and finally the 9/11 event in the United States in 2001, which changed the global geo-political realities. However, there are underlying patterns or phases that cut across these decadal boundaries. Hence, in defining the different phases of the Indian economy in the post-independence period, one needs to adopt a different perspective than in the previous chapter, which was basically a narrative to prepare the ground for this chapter.

The narrative in the previous chapter highlights the complexity of the situation confronting the nation. No easy identification of the phases of the economy is possible unlike presented generally in the literature (for instance, *see*, Rodrick and Subramanian, 2005, Wallack, 2003 and Bhagwati, 1998). Similarly, in empirical analysis, usually simple relationships amongst variables are sought to be tested. But given the complexity, this is likely to lead to problems of missing or mis-specified variables, in addition to the problems related to errors in data as mentioned in Chapter I, Section 2. Simplicity also requires ignoring the various non-economic inter-linkages and not looking for a holistic understanding. As a result, usually the analysis has been partial, basing itself only on quantifiable variables. In other words, the technique dictates analysis. Even in a purely economic analysis, the catch is

that econometric / statistical analysis loses its meaning when a large number of variables are to be accommodated because then either long time series or large cross-section data are required. However, doing so leads to the problem of changes in the basic parameters not only over time but also across categories and therefore it leads to non-compatibility of the data series or to few degrees of freedom and lack of reliability of the results obtained. Thus, such analysis can at best be only of very limited use and usually leads to incorrect conclusions.

In the sixty-odd years of post-independence, India has displayed a decline of the collective spirit and a growing atomisation and individualisation (*see* Chapter III). There is growing apathy towards society and rising self centeredness. This is visible both in the ruling groups and the marginalised sections, more so in their changed structures. The ruling groups are less concerned with the wider good and more focused on their individual interests. The idea that groups can prosper through collective advancement has lost its legitimacy. So, different states demand a package for themselves. The politically powerful and the newly emerging groups of the marginalised are also working far more narrowly for their self-interests.

The changing political alliances are also based on these narrow considerations. Thus, twisting the rules and their violation have become routine, which has given rise to corruption and the black economy. That these factors undermine social functioning and lead to policy failure are no one's concern. That these result in a truncated democracy bothers few of the elite who otherwise lament its decline when they compare themselves with their peer group in the West. While on the one hand, there is competitive politics to gain votes and come to power (and failure of democracy), on the other hand, there is growing control of economy by the elite and the corporate sector resulting in rapidly growing disparities.

The state has become an instrument for making gains — personal as well as of narrow groups. This helps understand the failure of the public sector and with that the inability of the government to effectively provide for the collective good of the society. The elite have worked directly and indirectly for the failure of the public sector by using it to further their narrow ends. Now that its utility has declined for them and since the other contending groups in society have been vanquished, it is able to exploit the situation further. However, these ideological positions are couched in terms of "efficiency" and other such ideas. All this points to a changing dynamics in India and this chapter explores it so as to build a more systematic understanding of the evolving situation.

The leadership plays the most important role in the development of a nation. It determines the political structure and the political economy of the nation within which developments take place and determine the changing

dynamics of the country. In turn, the leadership, the political structure and the political economy continue to be impacted by the colonial disruption discussed in Chapter II. To a large extent, these three factors lead to policy changes, which determine the phases of the economy. That is why these inter linkages are discussed in the following sections as a prerequisite to the discussion of the phases of the Indian economy.

2. Leadership of the Country and Continuing Disruption

The unfolding events presented in Chapter III suggest that India has been buffeted by various influences coming from abroad since independence and has not followed a consistent policy. This reflects a failure of the leadership of the country. It has often neither been able to anticipate changes and plan for it nor has it been able to formulate a consistent policy based on India's long-term interests. Good governance requires anticipation and planning ahead and this requires a long-term view of the world situation. Such anticipation and planning cannot be expected from the people but may be expected from the leadership. In this sense, the leadership has failed the country. Progressively, the quality of the leadership in the country has declined and the reasons for this are analysed below.

What Tolstoy said about India having surrendered its freedom to the British rather than they having won it (*see* Chapter II) also applies to the post-independence leadership, its quality and commitment. Its poor calibre is because the rest of the population accepts it. The elite have a narrow concept of the nation and vested interests wish that the leadership remain weak so that they can manipulate it. An independent and strong leadership would keep the vested interests under control and they would not be able to get what they want. The British were also a vested interest who wanted to govern the country for their own narrow interests. They provided leadership from London and worked on their single well-defined long-term interest of maintaining their control and this guided their actions. They did not allow the local leadership to develop.

In contrast, the current vested interests who wish to exploit the leadership for their own narrow interests seem to work for short-term interests. They want a weak leadership that can be corrupted so that they can continue with their own corruption (Kumar, 1999) which allows them to make extra economic and political gains. They wish to bend the rules for this purpose. In the process, if it damages the wider society, they seem unconcerned. The leadership and the vested interests they serve seem to have discounted the idea of collective gain for the nation and instead focus on their individual gains.

Even when they seek political stability it is only to pursue their own agenda undisturbed by other diversions. However, political stability has been hard to come by because in a democratic system, more and more narrowly defined interests have emerged and buffeted the system. In the 2009 elections around 450 parties were in the fray compared to around 250 in the 2004 elections. Each group (regional, caste, religious and so on) has realised that they cannot gain in general but have to gain by getting their group members to the legislatures and Parliament. For this reason, every state now demands a special package for itself. The general faith that all the people of the country could benefit through general development has been eroded.

Since vested interests dominate the political parties, the difference between them is that between Tweedledee and Tweedledum as far as the economic agenda is concerned. Today, the ideological differences between the parties are few. Their actions are dictated by the desire to come to power to serve the interests of the vested interests. The marginalised have, in the process, been even more marginalised even within the parties that claim to serve their interests.

2.1 Indian Leadership: Growing Undemocratic Tendencies

The current attitude of the ruling parties and wider political leadership represents little change from the way the British treated the people of India, except that the actors have changed. As discussed in Chapter II, the elitist leadership, even during the independence movement, acted in its own interest but did so in the name of the people. This disjuncture and lack of transparency have increased during the post-independence period. Up to 1991, at least the leadership claimed to act in the interest of the people but that pretence was dropped after 1991 and it can be said that there was less of hypocrisy. While the people suffer more they are able to see the real face and can act more consistently against the anti-people policies being pursued by the various governments, such as in Nandigram and Singur and against POSCO in Orissa.

Globalisation in this phase has meant the globalisation of the Indian elite with the global elite. It wants to send its children to the US and UK for working in dotcom companies and with MNCs. They go there for vacations and send their children there for studies and go there for good medical care. They want the goods available to the international elite to be available immediately in India as well.

The elite's emotional attachment with India has substantially weakened — rapidly completing the process begun during the colonial period. Progress in this direction does not mean setting up one more tap in Bankhedi, one more primary school in Banswara or one more primary health centre in

Banda. For the Indian intellectual progress means going to Harvard and Cambridge and not to Meerut or Rohilkhand universities.

The Congress party was in the vanguard of the national movement for independence and threw up a bulk of the leadership of independent India. Thus, the roots of the post-independence decline in the quality of leadership has to be traced to the nature of the Congress party, its leadership and its impact on other parties.

2.1.1 The Decline of the Leadership and the Role of the Congress Party

The degeneration of the leadership so soon after independence when it seemed to have solidity can be traced to its feudal mindset, which was evident even during its hey days before 1947 — a fact reflected in its aspiration to rule the country rather than to serve it.

This trait is perceptible in post-independence India where under Nehru a line of leadership did not emerge but the party increasingly came under his control. During Nehru's time, the national discussion often used to veer around "After Nehru who?" because there was hardly a second line of leadership. An increasing number of chief ministers of states were selected in Delhi and not by the democratically elected legislators in the states. At other times, the legislators were coerced to parrot that they left the leadership question to the high command. After Nehru, but for the brief interregnum of Lal Bahadur Shastri, the reins of power passed on to his daughter, Mrs. Indira Gandhi.

She was called "gungi Gudiya" in the beginning and spoke haltingly at meetings. But with the experience of the Nehru years, the proximity to power she enjoyed in that era and her advantage of having interacted with leaders of various hues, she gained confidence and quickly centralised power with herself. The feudal mould of the weak leadership also worked to her advantage as well as the other members of her family who were easily accepted as the undisputed leaders of the party. The second rung leaders in the Congress (I) were never able to accept anyone from their ranks as the party's top leader but have had no problem in accepting any member of the Nehru-Gandhi family as the party chief, howsoever weak she / he may be. Leaders from outside the family who have become PM because of difficulties of succession within the Nehru-Gandhi family have been subservient to the family. They were chosen because they had no independent base and could never have posed a threat to the family.

Nehru had evolved through the national movement and was forced to rub-shoulders with the common people of India, but not Indira or the others from the family that followed. They were born with a silver spoon in the mouth. Indira Gandhi displayed little of the sophistication or the vision of Nehru. Those that have followed have shown it in declining progression.

The second-rung leadership was further decimated under Indira Gandhi — increasingly given to sycophancy. Anyone who even remotely posed a threat to her political power was marginalised in the party. D. K. Baruah, a party President went to the extent of saying "India is Indira and Indira is India". Even now many in the Congress believe there can be no India without the Congress party.

Indira Gandhi imposed Emergency not because there was a threat to the country but so that she could further her personal rule. During the Emergency the judiciary went on to play to the galleries, with few notable exceptions. There was talk of "committed bureaucracy". The idea would have been fine if it was a commitment to progressive policies but it was aimed at furthering a personal vision of power. Autocratic rule dominated with state governments dismissed and inconvenient bureaucrats and police officers transferred at will to extract commitment to the leaders. These tendencies have spread to the states and have compromised the bureaucracy all around. The bureaucracy, during the British rule, was trained to serve the broad interests of the rulers and not their individual whims (and certainly not of the people). But that is what it has had to do in independent India. It has had to act against its training and this often resulted in demoralisation and corruption.

Indira Gandhi held complete sway on the nation in the 1970s but for a brief interregnum and again the question used to be asked in the 1970s and the early 1980s, "After Mrs. Gandhi, who"? As suggested in Chapter III, her preoccupation with her own power played a major role in the aggravation of the Punjab and the Kashmir problems. Had these states been democratically dealt with, perhaps the problems that arose may either have not arisen or remained nascent or not reached the intensity they did. The open grovelling of the Andhra leadership to Rajiv Gandhi in the early 1980s led to the emergence of N. T. Rama Rao and his Telegu Desam Party (TDP) as the biggest challenge to the Congress rule in that state.

The Congress party, the mother of many Indian parties (with few exceptions), became the model of what a party should be like. New parties that emerged, such as the BSP or TDP followed the same pattern as the Congress party. These parties are based on hierarchical structures designed to exploit a section of population to get to power. Today, most parties are quite undemocratic in their own functioning with the next rung leadership largely from the family rather than the cadre of workers. The workers also imbibe the same undemocratic spirit and voluntarily follow the leader. Many of the new parties supposedly representing the downtrodden get votes in the name of the poor but typically work against their interests by indulging in corruption and pursuing elitist policies. In UP, one ostensibly socialist party set up a development council with industrialists and film personalities as members and not

those representing the poor or following the socialistic aspirations that it claimed to be its guiding principle.

2.1.2 Politicians and the Alienation of the Citizens

When politicians fail to deliver and like actors present a façade different than their real intent, then actors can do it better and can gain the public's confidence and win elections. A large number of successful entertainers have entered the electoral arena to encash their popularity and the parties see an opportunity in this for gaining extra seats in state assemblies and the Parliament. In one recent election meeting one actor standing for elections was asked to dance to a popular number rather than give a speech. After winning elections, many of these actors have had little time (or inclination) to meet the electorate or visit their constituency or find out their problems and try to solve them. One of them who once successfully stood in the 1980s but left politics soon after again started hobnobbing with politicians when personal problems mounted. He has been so cut-off from reality that he is reported to have stated in interviews that poverty in India is a thing of the past and hardly any problems are left in the country. This is how isolated these entertainers are in their own world of make-believe.

Sixty-odd years of experience has led many citizens to become apolitical since most who come to power do not deliver on the promises made at the time of elections. Consequently, many do not go out to cast their votes. Further, they choose even the corrupt and the criminal to represent them because they can deliver on their narrow sectional interests (Kumar, 1999).

Even the Left leadership, though different from the other parties and working directly with the poor, is not untouched by this malaise. In one instance, the capacity of the General Secretary of a Left party to manipulate power in Delhi perhaps counted for more than what work he had done with the poor and the workers. Recent events in Nandigram, Singur and Lalgarh show the distance of some of these parties from the people. Power has gone to the heads of the leaders of the Left parties as well since their structures are also autocratic even if less than those of the other parties. Their inability to expand their hold to other poor areas of the country is a reflection of their weakness. Wherever these parties are in power or have shared power, they have been tainted by corruption and become partisan and consequently alienated from the public over time.

In the late 1990s, there was a chance for a highly respected Left leader to become the Prime Minster at the head of a coalition. After much debate in the party, it was decided that this would not be acceptable since the Left would not be able to carry forward its agenda at the head of the coalition with other Centrist parties. However, a segment of the Left was upset by this decision since it had been waiting to get to power and termed it a historical

blunder. However, in retrospect the decision seems to have been correct as otherwise the decline of the Left would have accelerated. Once in power, the Left has repeatedly diluted its ideological moorings to enjoy power with its attendant problems in a highly corrupt system.

Take for instance, the UPA-I regime from 2004-09. The Left supported it from the outside and consequently many Left intellectuals were accommodated in positions of power in various institutions. One expected greatest consistency from this group due to its higher understanding of ideological issues but soon it became clear that there were subtle (and not so subtle) changes in their thinking and some displayed a readiness to compromise with even basic principles in the name of pragmatism.

Delhi and other State capitals present the image of Courts of earlier periods with courtiers flitting around the corridors of power and manipulating power for their narrow gains. Their power is based on their closeness to the leader of their party. This is perhaps true in any system but more so in India than in other democracies. The power of ideas is minimal — networking, collusion and manipulation of people are the order of the day.

Starting with the political parties, the lack of democracy has percolated down to other institutions in Indian society, such as educational institutions, research institutions, cultural organisations and scientific associations, among others. Of course, the army, the police and the bureaucracy are not expected to be democratic internally because of the nature of their work. But their interaction with the rest of the society should be characterised by democratic principles, but even that is weak because of the overall lack of transparency and accountability that the system has bred. Even private institutions reflect feudal attitudes. Most public institutions have hierarchical structures with control running downwards. The feudal mindset of the national leadership is also reflected in the control it exercises over these institutions, either through the appointment of the head or through the funding, which comes from the government or from the monied.

The disjuncture between the leadership and the people has meant the decline of ideology, ideas and principles in party politics in India. A party can take any stance convenient to it to get to power. So, socialists can be anti-BJP one day and then team up with it another day and form a government. CPI(M) can be pro-Congress at one point of time on the plea that the communal forces have to be kept out of power and then oppose it at another time even if that means that the communal forces may get to power. Congress can claim to be secular but practice soft hindutva. BJP can claim to be Swadeshi and later invite MNCs.

Leaders routinely make disingenuous or biased statements and when criticised, shamelessly deny them even if they are on record (say, on TV). There is hardly any concern about their public image and accountability.

They know that most of the other leaders are similar, so the public is helpless — they have to choose from amongst them only. Five years back, one top leader who went to receive a degree from a British University praised British rule in India and another said in Germany, "I invite foreign capital to come to India for the next few hundred years". They were unmindful of the sacrifices of the people during the national struggle and showed disrespect to India's history. They need not have made these insensitive statements and still made powerful speeches. Why did they do so? It was not a case of being polite to the hosts but of their arrogance and their belief that they are above the people and their history.

Today, what matters to leaders and parties is money and power, and for that they are ready to make all sorts of compromises. Naturally then ideologies and principles are worthless, and individual and family interests dominate that of the people. Gandhi (1909) had criticised British Parliament precisely for these reasons. The situation in the Indian legislatures is far worse than it was in the British Parliament. The public in India feels helpless and cheated and has reacted by turning increasingly apolitical and sectarian, which has turned out to be of advantage for the vested interests in society.

Narasimha Rao and his Finance Minister knew that the NEP were anti-people (*see* Chapter III, Section 6.1), yet they launched these policies. Should the anti-people stance of the ruling elite reflected in the blind acceptance of the NEP have come as a surprise? Not really, given the increasingly undemocratic character of most of the Indian leadership in the phase starting with the Emergency in 1975. We are witness to Indira Gandhi's increasingly autocratic nature and intolerance of dissent. She used popular slogans like "Garibi Hatao" to get to power. But instead of banishing poverty when in power she used it to her own ends of consolidating her power.

The Janata Party with the former Jan Sangh as one of its constituents came to power in 1977. Since its leaders had suffered during the Emergency, the party was expected to strengthen the process of democratisation of the nation. Instead, it damaged it. Its PM, Morarji Desai, refused to carry out the party's promises to the people during the elections on the ground that he had to run a government and the party could do what it liked. Clearly, such an attitude made a mockery of elections and undermined accountability. In fact, all political parties have gone on to adopt such an approach. Promises are made during elections only to be broken afterwards.

In another instance, when the Congress lost power in the 1996 elections, the United Front (UF) government with a part of the Left in it and with support from the Congress came to power and it continued the NEP even though many of the elements of the UF were opposed to these policies when they were in the opposition. Similarly, when the UF government fell in 1998 and the NDA headed by the BJP came to power they continued the policies even

though they had also attacked them when in opposition. Their election slogan was "Swadeshi" but they promoted MNCs with a vengeance. The Congress again came back to power in 2004 and its slogan was "Hamara hath aam admi ke sath". But, its anti-people stance was palpable — displacement, inadequate employment generation and unprecedented rise in disparities. Even though it implemented useful schemes like MGNREGA and RTI under pressure from progressive elements, its mindset was pro-corporate and its government acted as India Inc.

No wonder, the gap between the leaders and the public has grown and the credibility of the leadership has been on the decline. The public has consequently become more and more apolitical. With apathy rising, the capacity of the government to deliver weakens.

2.1.3 Weak Leadership, Mediocrity and Impact on Other Institutions

Leaders of parties in India appear to be strong, forcing their will on their parties and the people but in the sense of giving a lead to the country they are weak. So, Indira Gandhi was weak in the latter sense though appearing to be a strong leader. The result of a weak leadership is that it is insecure, lacks self-confidence and surrounds itself with other weaklings and sycophants. It does not allow leadership to evolve under it lest it be upstaged. Thus, mediocrity is promoted over talent. Being insecure, it does not admit mistakes and rather than correcting them, persists with them and justifies itself or shifts the blame elsewhere.

Theoretically, even a mediocre leader may picks up skills, gain confidence and become adept. However, the point is the missed opportunity for the nation. In place of such leadership, if there was a talented one it could go much farther and make an enormous difference to the nation. Such a leadership would be self-assured, not require constant reaffirmation and could deal with the real issues of the people more effectively so that the country could do far better. In India, insecure leaders have packed all institutions with mediocres at the head, who rather than being independent, do the bidding of their masters. This is visible in the bureaucracy, the PSUs, the universities and so on.

Mediocre people at the helm of the various institutions also lack vision as to how to run these institutions so run them down. Because of their insecurity, they also promote mediocrity rather than excellence, which they feel could pose a threat to their dominance. For instance, in Indian universities, independent thinkers are considered to be inconvenient and trouble makers and hence marginalised. Dissent is suppressed even though it is the essence of the functioning of any institution of higher education (*see* Chapter XI).

In brief, the role of leadership in promoting excellence is paramount but this has not happened in India because of the feudal minded leadership that

the country inherited at the time of independence. Even when accidentally talent has come up it is in spite of the leadership or because it was itself from a well-connected family or used networking and sycophancy to rise. The point is that in India it is not the system that cultivates talent, rather it happens accidentally, and is therefore more an exception than the rule. Rather than produce millions of talented people annually, the country produces a handful and therefore it lags behind other nations in skills and development. Naturally therefore, India is forced to copy others. Many from among the talented lot leave the shores of the country to seek recognition elsewhere. This is a source of the nation's weaknesses that has progressively aggravated.

This is also manifested in the attitude of the leadership towards original ideas. For new suggestions, it asks "where else has this been tried" and with what results? As if nothing new can be tried in India first and the country is destined to be copiers of ideas from abroad. The pride in being the first to do something seems to be missing because the vision of charting our own path or a new path is absent. Rabindra Nath's *Ekla Chalo* is now a mere song and not an inspiration for the leadership. This demoralises original thinkers and encourages the mediocre who are adept at recycling knowledge from elsewhere (read, the West).

Today, a large number of leaders are the relatives of important leaders (present or past). They have hardly done any genuine grassroots work but have ascended to power thanks to their lineage. The contrast between Gandhi and Nehru in this regard is stark. While the former did not push for his progeny and tried to build talent in the Congress party, the latter was indifferent to building a strong second-rung leadership so that as the stalwarts of the national movement died over time, only the Nehru family appeared to be capable of giving a lead to the party and the country. India still suffers from this handicap. This is also reflected in the large number of institutions and schemes that have been named after the Nehru-Gandhi family members (According to recent reports, more than 450 schemes, programmes and institutions are named after them. *see* Prakash, 2009).

The undermining of democracy and the feudal minded politics have facilitated the rise of hangers-on and the ease with which vested interests can get close to the leadership. These people provide the machinery to the leader to win elections to get to power. In such an environment, issues become incidental and consequently lose their meaning. National policies merely become means to make more money and develop vote banks. For example, there are reports indicating that the Mid-day Meal Scheme and Sarva Shiksha Abhiyan have been used in some places to further the political interests of those in power and make money.

Unlike Gandhi who believed in making every individual autonomous and strong, the current leadership thrives on keeping people weak and dependent by exploiting the divisions amongst them so that they can be manipulated. They give sops at the time of elections to gain feudal loyalty. Citizens are not empowered to think that what they get from the state is their right. Instead, they are made to feel it is the personal largess from the leader. Finally, leaders often practise divide and rule — a lesson learnt from the colonial masters — to hold on to their vote banks and consequently the nation remains mired in strife rather than ascending to greater heights.

2.1.4 Leadership, Honesty and Corruption

As argued above, cutting across party lines leadership in India holds short-term views on matters and is self centred and serves the narrow interests of the vested interests in society. This has resulted in political, intellectual and financial dishonesty in the system. Individual leaders are imbibed with some or all of these qualities.

Often, when honesty is discussed it is considered to be in financial terms. However, for the nation the other two are no less critical since they are usually intertwined and presence of one kind of dishonesty allows the other kind to flourish in the system, making the whole system dishonest.

Analysts have tried to make a distinction between those who take money but deliver and those who do not deliver in spite of taking money. The first was referred to as the Kairon syndrome of the early 1960s. The problem is that slowly corruption seeps down the system and slows it down as few still deliver routinely. Over time, there is a tendency to transit from the first kind to the second with poor delivery.

There have been financially honest Finance Ministers and Prime Ministers — that is they did not make money while in power. But they have looked the other way and allowed the worst kind of corruption to take place under their noses so as to continue in positions of power and to rise. They have been intellectually dishonest, encouraged sycophancy and worse. They have often played havoc with policy. As pointed out in Chapter III, one former economics professor, considered to be financially honest, who authored the Report of the South Commission as its Secretary when he became the Finance Minster a couple of years later did exactly the opposite of what he himself wrote in the Report. How reliable is such a leader who can change his opinions at will for narrow gains? No nation can function well under the leadership of such a person. There will always be questions about the intent of such a leader's decisions.

This leader is not unique in what he did. Others from academia who have strayed into politics have also made such intellectual somersaults and justified them as exigencies of power. This kind of behaviour leads to degeneration in

the intellectual community. Such dishonesty which involves intellectuals changing their opinions to serve vested interests may not be for money but for the association with power and the associated perks that one can derive.

During this leader's term as Finance Minister, the Harshad Mehta scam took place where thousands of crores of investors' money were lost and the financial system was brought to the brink. This leader said in Parliament that he would not lose sleep over what was going on in the stock markets and thus encouraged the rapid build-up of the unsustainable positions which led to the eventual collapse. Further, he stopped a raid by the income tax department on Harshad Mehta on 28 February, 1992 within hours of its beginning. The officer who conducted the raid was never given any post-retirement job while many from the Ministry of Finance are offered plum postings post-retirement for "behaving" themselves. This officer was not allowed to appear before the JPC investigating the scam. Six days after the retirement of this officer, the next appointee was made to appear before the JPC.

During this "honest" leader's incumbency as FM, the largest and the biggest scams (up to then) took place in the country. He gave massive concessions to some of the big business houses, perhaps to curry their favour and secure his position. No wonder the image that the increasingly corporate controlled media has projected of him is that of an honest and hardworking leader. The moot question is whether intellectual and political dishonesty in some sense are worse than financial dishonesty.

It is the lack of accountability of the leadership that leads to growing dishonesty in every sphere. Leadership does not deliver on its promises because it knows that the public is helpless. It is well accepted that whichever party comes to power will do the same. What is also clear is that manipulations and dishonesty begin on a small scale and grow over time. Many leaders argue that they need money to be in politics. This starts with money collected for elections and running the parties and then grows beyond any needs of party politics. In other words, there are no half-way houses or stopping points. Once the cracks appear, over time the dams burst. How is it that some of the successful leaders who emerged from the JP movement, which was based on accountability in public life, have become as corrupt as they are?

Supposedly clean parties, like the Left and the BJP changed once they came to power with accusations of corruption against their leaders and especially those who were collecting funds for the party. BJP came to power on the slogan of being "a party with a difference" but in no time it was captured by the money-bags. The gap between the cadres and the leaders grew and the cadres also started indulging in corruption. In the Left-ruled states, people complain that the cadres manipulate postings and the financial schemes

from the government and make money. This is not of recent origin since accusations of corruption by the Left leaders go back to the 1950s. The Soviet trade and other dispensations were a source of big money because the Indian business and corporate sector gave only relatively small sums of money to them.

The dishonesty of the leadership is driven by the desire for political power. Ideology is only a convenient ploy to gain votes but really does not matter since actions are not governed by it. There is now mostly a semantic difference between the BJP and the Congress (I). No wonder there are voices (mostly from the business and corporate sector) that argue that the two should get together to rule the country. The end of ideology in the country reflects the social value of power (based on the feudal mindset inherited from the pre-independence period) and the continuing loss of value of ideas.

2.1.5 Failure of the Leadership of the Marginalised Sections

Many parties and leaders claiming to represent the interest of the marginalised (Dalits, Muslims and OBCs) have come up in the last thirty years. This should have led to a rapid improvement of their lot. However, it has resulted only in a marginal difference. The deprived sections are implicitly expected to be happy with whatever little difference (from trickle down) that has come about in their lives — it is implied that they need to overlook the rapid rise in disparities in the country and the big gains made by the well-off sections of society.

In a parliamentary democracy those who are numerically strong should be able to get what they wish to because they can vote to power those who will deliver to them. However, democratic representation can be circumvented by the powerful in society and this is the failing of parliamentary democracy. They can deliberately slow down democratisation and the rise of consciousness amongst the marginalised sections. Their illegitimate gains and continuation in power depends on their capacity to divert attention from the real issues. For this purpose, divisions in society are exploited and emotional issues created as a diversion.

The leadership of the deprived sections has carried with it a low level of consciousness and has not been able to fully grasp the meaning of democratisation. It has behaved in the same mould as the mainstream parties with lack of internal democracy in parties and links with vested interests of society. They surround themselves with sycophants and demand from their followers the same kind of feudal loyalty that others do. They have not tried to mobilise and unite the other marginalised sections of society. They have not put forward a programme which would be all-inclusive. Their limited goal has been to gain power, use corruption to make money and give limited benefits to their narrow constituency.

As discussed in Chapter X, the critical requirement for the poor is excellent education for all children in society — it should be compulsory. However, in spite of having a majority in the legislatures and the Parliament, the leadership of these sections has not demanded and obtained the Right to Education and Employment for all. Worse, some of these leaders on coming to power have wasted huge sums of money in building monuments (costing thousands of crores) in the memory of their past or current leaders. This seems little different from what the upper castes do when they build grand temples or mosques, which does little to improve education or health of the poor since they only divert resources away from these essential activities.

Another marginalised community, women, have not been able to get adequate representation or equality in the country. This, in spite of the nation having powerful women leaders at the helm of affairs, like Indira Gandhi earlier or the present Congress (I) President Sonia Gandhi. Both have had unchallenged positions spanning long periods of time. Clearly, the perspective based on a long-term vision of the nation has been missing. This is because the leaders of the marginalised sections have internalised the values of the dominant ruling classes. They feel they can be successful only if they are like the leaders of the dominant groups. So, successful women may take on the values of the dominant men while the Dalits copy the values of the upper caste leaders.

This is the result of a disrupted consciousness in society, which was reinforced during the British rule. Independent India's leadership has not been able to overthrow the yoke of this burden. The feudal consciousness that still pervades in the country limits the aspirations of the marginalised. For their leaders, those below are expendable, just as they are for the rulers. It is only when the national consciousness changes from the feudal to a more democratic mould that real change in the status of the marginalised would take place. If that were to happen, Gandhi's dream of "last person first" would be realised and real democracy would be achieved.

2.2 Leadership and National Interest

Every group fighting for political power claims to act in the national interest. The business groups represented by say, the Confederation of Indian Industry (CII), claim to act in the national interest. Narasimha Rao's government, in 1991 initiated NEP in the name of national interest. The BJP claims to act in the national interest by pushing the Hindutva agenda. The Nehruvians, as distinct from the current brand of Congress leaders, claimed that the Nehruvian policies were and remain in the national interest. At a different level Indira Gandhi is said to have worked for national interest and at an even lower plane Rajiv Gandhi was projected to have worked for the national in-

terest. Of course, the current government justifies all its anti-common man policies on the ground of national interest. The corrupt politicians and businessmen also claim to work for the national interest.

Obviously, there are different brands of nationalism that are contending for space and this leaves the people confused as to what is national interest and whether such an idea has any validity. Can it be said then that anything that anyone does in the nation is in the national interest? That is the view that seems to be emerging from the national electronic media, which brands people taking a wider stand as moralistic or paternalistic — the idea projected is that whatever is happening should be allowed to take place and no stand need be taken in society. Globalisation has further confused the issue because the idea of nation has been devalued by the notion of "living in a global village".

Like much else in life, there are few things that are black and white but does that mean whatever is going on is justified? The term nationalism or national interest also has different meaning for different groups, say, the political right or the left. For the former, objectively speaking, shorn of the verbiage, it means serving the interest of certain sections of society while the rest are marginal. For the latter, it means serving the interest of a group that claims to represent the interest of the organised sector workers to the exclusion of the vast sections of the unorganised and marginalised people. For the centrists, it stands for serving the interests of the elite but camouflaged with rhetoric about the poor. In brief, for the various political forces the marginalised sections stand nowhere in their understanding of national interest. Over time, as ideologies have taken a backseat, the differences between the various political groups have become few. Consequently, most political groups are increasingly motivated by the desire to get to power by whatever means to serve the interests of a small ruling elite in the country.

Associated with the idea of nationalism or national interest is a timeframe. What may appear to be nationalistic in the short run may actually not be so in the long run. In a highly unequal society like India, it is the elite groups' understanding of national interest that has mattered the most. This has been true both when the British set about colonising India and during the national movement and in the post-independence period. For instance, while Gandhi had an all-inclusive vision and talked of "last person first", other nationalist leaders of the Congress party had a more elitist view and that has prevailed in independent India. Gandhi's vision of incorporating the various castes and communities of India in the political process of sharing power was instrumental in forging the national movement. However, for many other leaders this was only an instrument of getting to power and this has been apparent in post-independence India.

The Right wing in India, emerging from the business groups or based on the upper caste Hindu view as espoused by the RSS, have viewed nationalism very differently. The former wanted a pro-business nation. The business community working for the interest of their community by espousing Swadeshi and indigenous production may have appeared to be nationalistic but because this view excluded the majority it can hardly be said to be nationalistic. The RSS and its offshoots defined nationalism in narrow and exclusivist Hindutva terms. Hence, this became divisive and not in the national interest. They were trapped in the divide and rule policy pursued by the colonial power to keep India weak. They have not seen that in a diverse nation like India policies have to be not only inclusive but non-hegemonic. It is not surprising then that the apparently staunchly nationalistic BJP emerging from the RSS and Jan Sangh can hardly be called nationalistic because it stands largely for the interests of the upper caste Hindus, which is divisive and clearly not in the long-term interest of India. In this phase of globalisation where the nation faces the danger of being dominated by outsiders anything that divides the nation and weakens it can hardly be characterised as nationalistic.

The more tricky case is of the Nehruvian policies that at the surface appear to be inclusive and nationalistic. Nehru's espousal of secularism, self-reliance and non-alignment appear to be nationalistic, as defined by the interest of the nation. These are inclusive policies and seem to have a long-term vision of the nation. But these policies were set within the framework of western modernity (as discussed in Chapter II) which were not necessarily in the wider interest of Indian society. It implied a lack of an independent path based on Indian conditions (as Gandhi wanted) and assumed that a path of development is not space-time specific and can be copied by one nation from another. The consequence of this blind copying led to the failure of these polices and ultimately capitulation to the purely Western path in 1991. It must be said that Nehru (or to an extent even Indira Gandhi) acted in good faith but for a nation that is not good enough since it is history that ultimately judges whether what was done was in the national interest and succumbing to the Western hegemony cannot be considered to be nationalistic.

For a large and diverse nation like India, nationalism can only be based on consistently following an independent path of development in the interest of the widest sections of society and especially the poor. Defining it as the interest of the elite, westernised ruling class can hardly constitute nationalism, even if this group believes it to be so. So, for instance, Indira Gandhi is considered to be a nationalist but events like Emergency, developments in Punjab and J&K leading to emergence of terrorism there suggest that she was primarily motivated by her self-interest of preserving her power. Her pro-poor stance turned out to be more of show and less of actions. Her pass-

ing on of power to the right wing through her son Sanjay and opening the economy to consumerism sowed the seeds of the eventual collapse of Nehruvian policies. The populist measures under the Twenty Point Programme taken during the Emergency for justifying it paled into insignificance when compared to the many Right wing actions initiated by Sanjay Gandhi. And she did not stop them for reasons of her own politics. This makes it hard to accept that her actions were not motivated by self-interest.

She did not allow a second rung leadership to emerge in the Congress party but groomed her sons for dynastic succession. These can only be seen to further her family's narrow interests and hardly in the national interest. While she seemed to have acted in the national interest, like when standing up to the USA when the Seventh Fleet came into the Bay of Bengal in 1971 or when helping the creation of Bangladesh or by initiating the Green Revolution, these pale into insignificance when compared to the overall direction she initiated which opened the country to western domination in the post-Indira Gandhi era. She may have been more nationalistic than say the Congress (O) leaders (whom she challenged in the party and then threw out) or the Jan Sangh but in the long-term sense because she destabilised the budding institutions of democracy and promoted elitism after 1980, which undermined the notion of equity in society, she can be said to be more nationalistic compared to those who talked of an indigenous alternative.

The post-1991 policies have marginalised the marginal and promoted the interests of a narrow elite section of the population (*see* Chapter III, Section 6). In that sense it has been more exclusivist than anything that the nation had earlier seen. It undermined the Nehruvian policy framework, which was the only available one in independent India to serve the national interest (as defined by the interest of a broader group than under NEP) in the medium-term.

Intellectuals are the only group that can cater to the long-term interest of society but not if they become a part of the power structure. The colonial rulers did not allow a strong intellectual tradition to develop so that in the post-independence period also, the best minds aspired to be bureaucrats and not academics. That is the reason, many academics have been willing to be co-opted by the power structure and lend themselves to those in power. Post-1991, the private sector has lured away talent. Intellectuals have also fallen prey to atomisation and consumerism that has risen rapidly in society. They aspire for projects and consultancies to earn money. Since these depend on compatibility of ideas with the funding agencies, the direction of research and thoughts is moulded and independence subtly compromised. Thus, independent voices have not only become few but marginal. Academics in positions of power, to get there, have made themselves available to money-bags,

parties and the government so as to provide a rationale for whatever they are doing.

Each ministry in Delhi has an institute to support what it wishes to do. So, NIPFP is available to the Ministry of Finance, IIFT to the Ministry of Commerce, IAMR to the Ministry of Labour, and so on. Even otherwise through funding for seminars and meetings, plum positions and committee memberships, there are any number of ways of cooption. This represents another short-sightedness on the part of the leadership — without the nation generating new knowledge it cannot become great and without independent thinking new knowledge can hardly emerge. This signifies a will to mediocrity.

In brief, in the post-independence period, national interest has increasingly been defined by the ruling elite in terms of their own interests. Given their western orientation from the colonial times, it has meant copying another's path rather than devise an indigenous one. Over time they have become narrower in their focus and increasingly tread an exclusivist path, which has undermined the larger national interest. This is the progression from Nehru to Indira Gandhi to NEP. This is the reason that in the face of difficulties in the development path they initiated in 1947 they succumbed so easily to western lures (consumerism based on the demonstration effect and migrating to the West in search of success) and did not fight for basic changes in policies in India based on working out an alternative. Success has meant success for self at the expense of the rest of the population so that it does not bother them that most of India lives a very uncivilised life with hardly any infrastructure (electricity, water, education, health, toilets and so on) available to them. The marginalisation of Gandhi's views based on development from below is at the heart of this tendency of undermining of the national interest.

2.3 Attitude of Leadership to Long-Term Issues: Education, Environment and Foreign Policy

Since the leadership has progressively been concerned more with gaining personal power and less with the welfare of the nation it has pursued short-term goals at the expense of long-term ones. Even progressive measures that are introduced under pressure to display democratic credentials have degenerated quickly in the absence of commitment. This has bred cynicism amongst the citizens. The resulting alienation has led to the growing individualisation and atomisation, and difficulties in collective action. This has become a self-perpetuating vicious cycle between the deterioration in leadership and growing alienation among the populace.

The short-termist attitude of the leadership is reflected in its lack of emphasis on education and health as well as lack of concern with the environment. A literate, well-educated and healthy population is the source of dynamism of a society. Environment is a key aspect of the quality of life of the citizens (including health). India has not achieved compulsory school attendance for children even though the target date was 1965. The rapid decline in the quality of the country's environment has meant more disease, shortage of clean drinking water, polluted air, unsafe food products and extinction of species at an alarming rate and the danger it poses to the people's existence (*see* Chapter X).

The mindset of independent India's rulers is not very different than that of the colonial rulers, namely, if the children of the poor get educated who will provide cheap labour to the well-off for their own comfortable existence (as the landlords said, if these children get educated who will take our goats to graze). Providing good quality education is a far cry if basic education itself is not a priority. For similar reasons, providing quality health facilities to all is not a priority even though it is a prerequisite to a highly productive population. Similarly, sanitation has never been a priority of the country's leadership, which is happy to keep itself in its sanitised enclaves.

The short-termist nature of the leadership also emerges from its lack of concern for the dynamism of its higher education and research. As argued in Chapter XI, this is what gives the nation its true dynamism but the leadership is more interested in control for its narrow purposes rather than building it up. There is a need for visionaries at the helm of the institutions of higher education but today the scene is dominated by those who are networkers and sycophants who have made themselves convenient to the leadership — A sure shot recipe for building up mediocrity.

In the race to copy the West, India's leadership has ignored the environmental consequences. It has forgotten that the West paid a heavy price for it, learning its lessons the hard way and repairing the massive environmental destruction it faced. London has gone through unprecedented smog (like present day Beijing, Mumbai or Delhi) the Rhine was a dead river (like the Suzhou Creek in Shanghai or the Yamuna in Delhi). Why did the leadership not anticipate this and correct it? Partly, like the rich nations exported their pollution to the developing world by producing clean technology products while letting the dirty technology products be exported to the developing world, India's elite thought that they could escape its consequences in their own enclaves while the poor suffered.

Just like the advanced nations forgot that there are global consequences of pollution and even they would have to suffer from ozone hole or global warming or swine flu, the rich in India and the developing world have forgotten that they cannot escape what the poor suffer because the environment

is an integrated whole. Further, environmental issues are all long-run but the Indian leadership does not have that in its focus.

While longevity has increased in India, the quality of life has deteriorated with proliferation of diseases, both environment and life style related. Thus, health costs are shooting up and absorbing much of the gains in incomes of the poor leaving them possibly worse off today than they were earlier. The cost of dealing with natural disasters has increased enormously since their severity has increased. The vulnerability of the population too, has increased. Thus, it is not clear that material progress has meant greater welfare of the citizens (Kumar, 2006d).

The one most responsible for this destruction of the environment is the business community, which for its short-term profits is ready to cut corners. It is party to letting forests be destroyed, air and rivers be polluted, spurious products (medicines) and harmful products (banned products in other countries) be produced and sold in the country and adulteration of food and vegetable products to be carried out in a big way (spurious milk, additives in vegetables and fruits). To enable all this to happen, the business community has corrupted the political class and the executive wing of the government and tampered with the justice system in India (Kumar, 1999).

It is possible to argue that during the phase of primitive accumulation of capital, which is what India is passing through, where all means of exploitation are legitimate, things should not be expected to be any different. It may be argued that it is an accident of history that India has parliamentary democracy at its stage of development. Most other countries have not had it at such an early stage of development. It is true that in India, most citizens do not understand the inner functioning of democracy and the institutions that could have made it work are also weak for this reason. As a result, democracy has become a façade. Due to lack of public awareness and lack of empowerment democracy is subverted through lack of transparency and accountability. In turn, this facilitates primitive accumulation of capital. Those in power have been the hand maiden of capital, which uses every possible means to advance its interest. It can also be added that international finance capital is also interested in this state of affairs to enhance its control so that either directly or through national capital it can also exploit the Indian market.

Are the above arguments simplistic? One can ask why did the national bourgeoisie want to overthrow the rule of foreign capital in 1947 only to invite it back after 1991? Why did it try to follow a relatively independent line between the 1950s and the mid-1970s (up to the Emergency)? Also, why did it go along with the Soviets and try to exercise a degree of autonomy from Finance Capital till at least the late 1970s? The reality is that the national bourgeoisie in India was never completely independent and accepted the dominance of the British before independence and when it faced a

crisis in its strategy of development in 1991, it had little difficulty in accepting the leadership of the then dominant force, the US capital.

Indian leadership lacking a long-term view has not clearly defined its vision of the future for the country. This is easily discernable in the international sphere where it has vacillated between one line and the other. This is unlike other powerful nations that have well-defined long-term objectives, which they pursue and manipulate others to fit into their vision. As delineated in Chapter III, this has happened *vis-a-vis* the dominant powers, USA and USSR. From time to time India has fitted into their global strategic visions. Further, it has been shown that India has not been able to resolve its own problems in the neighbourhood, especially that of Kashmir. We have had shifting ground *vis-a-vis* China, Nepal, Bangladesh, Pakistan and Sri Lanka.

As argued earlier, the Indian response to the crisis / relations in the neighbourhood is conditioned by the British colonial thinking on South Asia. Independence has not meant a different approach than the imperial one of domination over the neighbours. That may have been alright for a strong imperial military power but not for a developing nation. A policy of domination of the smaller neighbours and suspicion of the bigger one is not a viable policy. The smaller neighbours have played one big neighbour against the other. In Nepal, India has supported the monarchy and the feudal elements rather than the democratic ones for obvious reasons of control. In Bangladesh, India lost out soon after becoming the liberator and the former harboured separatist groups to keep India at bay. In Sri Lanka, India used the LTTE for leveraging but its own creation turned against it and now there is little leverage.

Partly, it is the case that each of the neighbours also constitute disrupted societies with feudal minded leadership and are afflicted by the same leadership problems as India. Each of them also fitted into the agenda of big powers and that affects India as well and makes it difficult for India to pursue a consistent line. However, if India had clarity, its neighbours with historical and cultural linkages with it could have also had greater clarity and been less buffeted. The tenor of the relationship could have changed if India had a truly democratic-minded leadership. China is an example of a nation carrying through a consistent policy. It has defined its global interests and operates on that line consistently and expects others to adjust to it.

In India, perhaps like in other countries, foreign policy is not transparently formulated. It is said that in international affairs many things have to be kept secret. But that leads to policy becoming a victim of prevailing thought pattern, like in India's case, it has not been able to break out of the shackles of the thinking of the British colonial rulers. There was a continuity of sorts in 1947 amongst those who formulated policy. This may not be apparent since India tried for relative autonomy and made a departure by going

for non-alignment and friendship with China. However, it is unclear how serious India was in these new initiatives which quickly petered out.

Only the elite are involved in foreign policy formulation under the guidance of the Prime Minister. So, policy is a prisoner of the political leadership of the day and since that has been confused, narrowly interested in serving self interests and short-termist in its attitude, it is based on a narrowly defined interest. Hence, it is neither consistent nor well formulated. The wider public is not in the picture due to secrecy and opacity and does not fully understand the issues involved. For instance, with regard to Pakistan or Kashmir there is an emotional response in the public but little clarity on the issues. Similarly, more recently, the Indo-US nuclear deal was not understood by even the highly educated, much less the general public. A strategic issue was reduced by the leadership to an issue of producing 7% of the total power generation in the next 20 years. Similarly, on the issues related to the WTO, it is argued that these are international obligations, whereas in the US it is argued that these obligations will be accepted only if they are in the US national interest, otherwise not.

In brief, all real issues pertaining to a society are long-run and they require a holistic approach, time to comprehend and the intellectual capability to sort them out. Unfortunately, the vested interests in India are in a hurry to make money and have no time to wait. A holistic view puts checks on their quick profits, so they prefer to be short-termists and anti-intellectual. The media also reflects this view by asking the largely ill-informed public for its instant responses. The vested interests have preferred a short-termist leadership which would not come in their way. Such a leadership cannot formulate a clear and independent line for the nation. It is anti-intellectual in character believing it does not need ideas. Instead of giving a lead, it has given in to the short-term interests of the business community and the other vested interests in society thereby affecting the nation's dynamism and resulting in a vicious cycle of under-performance. In this sense, the current leadership cannot be characterised as nationalistic.

3. The Nature and Extent of Democracy in the Country

The nature of leadership and the political institutions impacts the nature of democracy in the country and at present it is a cause for worry in spite of India being lauded as one of the great democracies in the world. While formally it is a democracy with the freedom to vote and express oneself, in reality these liberties are truncated. At the time of elections, what happens till the vote is cast and what transpires after the results are declared are quite different. Party manifestos have little meaning since they promise a lot but there is a large gap between promises and delivery. This has discredited par-

ties and leadership and made the citizens cynical about representation and their representative. This has undermined citizens' faith in democracy.

In India, some argue that there is no democracy left. But compared to many other developing countries, there are freedoms that others cannot even dream of and citizens need to be grateful for that. Others say that India has a great democracy. Both these extreme arguments miss the point that democracy is not an end product or a binary state of either or.

There is a dynamic process in which democracy evolves making society move towards more or less of it. Perhaps one can say that with the decline of the institutions of democracy, such as the legislatures, the judiciary, the executive and the media there is less democracy today than there was earlier. We still have these institutions of democracy and they are functional but in a highly distorted form. Corruption of every kind has slowly seeped into them and impacted their functioning (Kumar, 1999). Courts have around 40 million cases pending with delivery of justice taking years even in simple cases. The legislatures have many who have criminal records (either manipulated by opponents or because of crime committed by them) and this has led to growing Criminalisation in society. Police is busy collecting *hafta* (a weekly payment for looking the other way) from those who commit illegality so that their interest in checking such activity is minimal and crime is increasing. In fact, the police force borders on criminality the way it terrorises and brutalises people and uses third degree measures during investigations. People's trust in these institutions has greatly eroded.

The judiciary, the bureaucracy and the police were not transformed after independence, so their basic structures remained unchanged. In the pre-independence period these were the instruments of control of the rulers and that has continued post-independence, too. After independence their role needed to be redefined from control to one of social service. A shift from the "*mai bap*" attitude to that of being subordinate to the will of the people of India was required. Because this transformation did not take place, they have not become institutions of democracy but instead have undermined it.

This transformation was not going to happen automatically just because independence came since these were the instruments of suppression of the people during the colonial rule and stood in opposition to the national movement and hence never went through the associated process of democratisation of their consciousness. If anyone in the services felt strongly about the movement, then they resigned so that those who remained behind were those that had decided to accept the role assigned to them by the colonial masters. Therefore, they could not be expected to automatically transform themselves after independence. A great effort was required to transform them, either by disbanding them and creating a new set up or by a massive effort to change their attitudes through retraining. Unfortunately, the feudal

minded elite Indian national leadership saw nothing wrong in these instruments since they also believed in controlling the people and designated it the "steel frame" of India which was holding India together. Partly, this was the result of a lack of proper understanding and partly it was due to the very difficult circumstances in which the leadership found itself soon after independence.

An important sign of the weakening of Indian democracy is the growing alienation of the people from the country. Separatist movements, terrorism and crime have grown over time. To govern independent India, the police force has expanded hundreds of fold as compared to what the British needed to control the colonised people. Crime has increased in the country not only because of the demonstration effect of the growing corruption and the desire to get easy money but the projection of the consumerist life-style, which requires high incomes. But in a poor country this is not feasible for a majority of the people. Thanks to advertising, the expectations amongst the youth have risen sharply but the only way most of them can fulfil these aspirations is through easy and quick money earned through crime or terrorism.

Separatist movements have emerged at various times in the North East, Punjab and Kashmir. The LTTE made deep inroads into the Southern states. Terrorist groups based on communal divide have spread in the country. The Maoist movements in the country have also spread rapidly in the last twenty years. These ideologically motivated separatist groups started with the Naxalbari movement in W. Bengal (*see* Chapter III) in 1967 and were dealt with brutally and seemed to be on the decline in the 1970s and 1980s but they resurged to spread rapidly in the 1990s. It is now spread from Nepal to Karnataka and other non-contiguous states. The Prime Minster has repeatedly characterised it as the single biggest challenge to internal security in the country.

All this has resulted in a rising cost of governance. This impacts development both directly and indirectly (*see* Chapter V). It not only results in shortage of resources for development but whatever funds are allotted to development does not yield commensurate results (Kumar, 1999), as was stated by the former Finance Minister in his budget speech a few years back, "Expenditures do not lead to Outcomes".

In brief, there is growing disillusionment with the idea of India and, therefore, a weakening of the commitment to the nation. Every State and section of society now desires a special package for itself because it knows that the general development of the country will not yield it any dividends. Developments are taking place at two poles. At one end there are those who desire to overthrow the rulers through armed conflict while at the other end there are the vested interests and sectarian leaders who are charting a narrow

path in their own interests. Both are undermining democracy and the idea of India and making the population cynical.

4. Phases of the Indian Economy since Independence

The above discussion on the nature of the leadership of the country and the kind of democracy that prevails today has an important bearing on the economic developments (they cannot be studied purely in economic terms). In the post-independence period, these developments have gone through several phases. Here we attempt to identify these phases to aid further analysis.

In the available literature, phases of the economy are mostly defined in terms of a uni-dimensional variable, that is, the growth rate of the economy (for instance, see Wallach, 2003). Hence, the popular idea that from 1950-51 to 1980-81 the Indian economy grew at the Hindu rate of growth (meaning a low rate of growth) and at a higher rate of growth post-1980-81. The so called Hindu rate of growth was an average of a widely fluctuating growth rate (*see* Graph 3.1). Analysts have divided this period into sub-periods of higher and lower average growth.

Even if one accepts that there was a Hindu rate of growth this is an inadequate characterisation because it is not located in the appropriate historical context. In comparison to the rate of growth in the pre-1947 period, it was substantially higher (Hatekar and Dongre, 2005). In comparison to the advanced economies that grew at 2-3% over a couple of centuries, the rate of growth achieved by India was substantially higher, and hence, nothing to be ashamed of. The point is not that we should not have had a higher growth rate. Further, it must also be seen with reference to the base on which the economy had to grow? As already discussed, India was and remains a disrupted society and faced massive problems — perhaps unprecedented in comparison to most other countries in the world.

At the time of independence, the largest sector of the economy was agriculture (Graph 3.4). The sector was the most backward in the country and riddled with massive problems as discussed in Chapter II. Acceleration of growth in this sector was the most difficult because it lacked in every possible infrastructure, including education. As the share of this sector in GDP has declined and investments have poured into the services sector and urban areas their importance has grown and the economy's rate of growth has increased. In some sense, this has been an easy strategy. But it has led to the marginalisation of a large segment of the population. The more difficult strategy of development from below was not even attempted by the rulers.

The social conditions in 1947 were difficult with widespread poverty, illiteracy and ill health plaguing society. Large parts of society worked with low technology and even the more modern sectors lacked technology and the

capability to develop it. The external factors, like the wars India had to fight, the Cold War and the oil crisis, among others, made the environment for development a difficult one (Chapter III). These have often not been incorporated into the analysis of the Indian economy (Say, for instance, in Rodrick and Subramanian, 2005; Wallack, 2003 and Bhagwati, 1998) and a simplistic picture drawn which, because it remains partial, also lends itself to ideological interpretations.

The phases cannot be said to begin when the rate of growth of the economy changes. Surely, the cause(s) of the change in the rate of growth lie in earlier developments. Yes, indeed when a drought takes place and the rate of growth falls the cause is immediate but this fall in growth rate may only be temporary. However, if it triggers a long run fall in growth rate then the reason for that must be something more than the drought and has already set in motion before the drought. In this sense, the phase has to be identified as starting before the drought, when the cause of the decline came into play, say, wars or lack of attention to agriculture and so on.

4.1 Hierarchy of Phases

It goes without saying that the Indian economy has seen dramatic changes and shifts. Society is in a state of rapid transition, perhaps far quicker than most advanced societies have seen in their own evolution. There are two major points of difference. One, that the latter have grown organically while India has had to jump stages in its development. And two, India has been subject to the interests of outside dominant powers, which have either ruled the country or have maintained a hegemony over it. This has led to large scale borrowing of ideas from outside, which has undermined Indian society's organic development (*see* Chapter V, Section 1.3). It has resulted in dichotomisation of structures between the advanced and the backward or India and Bharat, as is evocatively put. While the former have moved up rapidly on borrowed ideas of modernity and rejected the indigenous strengths and its slow evolution, the traditional sections are demoralised since they are stuck in what is considered backward and they are aspiring to transit to the former. In both cases, the jump involved in the transitions is huge and this has affected the understanding in the nation about the growth path it needs to follow. The shifts in thinking about the development path have come through several stages and these may be characterised as the phases through which society has undergone changes.

There can be several layers of changes which constitute a phase — from the overarching philosophical level, which happens once in many decades or centuries to the lesser changes which may again have hierarchies amongst them.

The most overarching factor that may be identified as the process of globalisation. This has itself undergone a change around 1750 (*see* Chapter II, Section 2) resulting in its becoming a process of one-way globalisation with all influences coming from the West and the indigenous ideas slowly fading out. It has turned India into a receptacle of Western ideas in every field.

The process of one-way globalisation has itself undergone several phases since Independence. The first started in 1947 with India gaining independence. As political power shifted from the British to the ruling Indian elite, the state was given a large role in society to resolve its monumental problems (Chapter III, Section 2). During the national movement, it was realised that the basic problems of society — poverty, illiteracy, ill health and social backwardness, among others — were a result of the system, the colonial rule, which killed society's dynamism. The individual has limited capability to overcome these systemic problems. Thus, it was accepted by the leadership that resolving the basic problems of society required social change and the state was the best instrumentality for that. However, the Western trained ruling elite could only think of the top-down approach to the problem (unlike, Gandhi who suggested a bottom-up approach).

This philosophy failed in several stages (Chapter III) and was replaced in 1991 by the market-oriented approach in which the state was required to retreat strategically and operate in a market-friendly manner, called the "market-friendly state intervention" (*see* Chapter III). According to this philosophy, the premise is that the individuals are responsible for their problems and they have to solve them through the market. If they are poor or illiterate or lack skills, they are to blame for it and society need not be held responsible or intervene on their behalf. Their problems are supposed to be because of their lack of initiative in going to the market. The collective approach is changed to a self-centred one. It is not recognised that different people have different initial endowments and, therefore, do not have equal access to markets. Greed is placed on a high pedestal and everything is to be worked through market-based incentives. The power of free markets in solving social problems is extolled.

In 2008, with the global financial crisis, there was a new transition (world wide) to recognising that free markets do not necessarily work all that well and that they need to be regulated by the state. The role of the state is again coming to the fore. The pendulum is swinging globally. Big changes are in the offing but what shape they take is not yet clear. What is clear is that the way the world economy was working since the late 1970s is not the way it can continue. People were largely trapped by greed and were willing to accept many of the shortcomings of the market-based approach. But with the

crisis building up and affecting an increasing number of people a basic questioning is now in evidence the world over.

Considering the above factors, and those discussed in Chapters II and III, the phases of the economy depend broadly on:

(a) Political changes leading to shifts in the political economy,
(b) Global factors and changes in strategic alliances, and
(c) Major economic shifts.

4.2 The Changing Political Economy

As depicted in Chapter III, India has a heterogeneous structure with tremendous differentiation in its major sectors – agriculture, industry and services. This is a direct result of the colonial disruption and the post-independence policies based on the trickle-down effect with focus largely on the modern and urban sectors, to the exclusion of others. This has led to the persistence of the backwardness in the three major sectors due to the colonial disruption of Indian society. However, copying western modernity has meant encouraging capitalist developments in all the sectors. As argued in Chapter III, the public sector was seen as an aid to the growth of the private sector not only by the capitalists (like in the Bombay Plan, 1944) but even by the leadership of the Congress party (like in the Industrial Policy of 1958). The spread of the Green Revolution in agriculture spread capitalist relations into agriculture and dented the existing semi-feudal relationships.

In brief, the persistence of the traditional sectors and the creation of the modern ones in all the major sectors have resulted in the observed heterogeneity in society and economy. While the traditional sectors have tended to lag behind, the modern ones have grown rapidly. This has resulted in shifts in political power equations and impacted policies, thereby resulting in the different phases of the economy. For instance, in the pre-1991 phase capitalists had to share power with other sections of society while in the post-1991 phase capitalists have become the dominant force showing little concern for other sections of the population.

In rural India, the decline of the landlords, the rise of the rich farmers, change in technology due to the Green Revolution and the shift of emphasis to the surplus producing areas has meant a change in the political power structures. The earlier resistance to the spread of education and technology has gone. Mobilisation to demand concessions for the rich farmers and remunerative prices for their produce has increased. As surpluses were produced in the Green Revolution pockets and deficits increased in other States, the importance of trade increased. Consequently, the influence of traders over policies has increased over time — PDS, control over markets and FCI

notwithstanding. Their control over the surplus has increased due to their domination over the small and medium farmers who have depended on them for credit and marketing. Over time, there has been growing casualisation of labour in rural areas and migration to urban areas. Small and marginal farmers have been losing out and becoming landless. This growing reserve army of labour has led to downward pressure on wages in the entire economy and higher profits for businesses.

In non-agriculture, the small and medium sectors have been giving way to big business. Consequently, the latter have been able to increasingly dominate policy. After 1991, an India Inc has emerged with a close nexus between the government and the corporate sector so that the latter is determining policies. For instance, the Planning Commission and the Advisory Councils to the Prime Minister are dominated by businessmen and those serving the interests of the business community. Individual businessmen have direct access to the Prime Minister, which was not the case before 1991.

The employment-generating small scale sector has weakened considerably over time because of dilution of reservation for it, reduced emphasis on it and the increased inflow of imports. The influence of the MNCs which was substantial during the 1950s waned and reached a low in the 1970s thanks to FERA and other regulatory instruments. But their influence again started rising from the 1980s, shooting up dramatically in the 1990s with the launch of the NEP. Indian big business that lacked in technology accepted to be the junior partners of foreign capital post-1991. The pressure on behalf of MNCs was also mounted globally by international finance capital through its agencies, the IMF, the World Bank and the WTO. This was aided by the decline and the disappearance of the Soviet Union which ended the challenge to the hegemony of capitalism in the world (Chapter III). In other words, post-1991 international finance capital emerged as an important component of policy making in India and led to major changes in the political economy of the country.

Labour gained considerably after independence in spite of being largely unorganised due to the creation of the public sector and the acceptability of the philosophy of collective action during the national movement. This changed dramatically after 1991 when a globally-mobile capital weakened labour. As more and more investment poured into the corporate sector working with a rising capital-labour ratio (more capital used per worker) less and less employment was generated in this sector. Analysts have talked of "jobless growth" not just in India but globally, too. This has considerably weakened labour. Trade union movements have suffered world-over and India has been no exception. Governments have become pro-capital and anti-labour under pressure from MNCs and the footloose capital, which created compe-

tition amongst the various nations. For instance, they even forced the European nations to cut direct taxes sharply between 2001 and 2005 (Farny, *et al.*, 2006). Even the courts changed their stance towards labour in India with many of the democratic gains of labour having been reversed.

The structure of the Indian economy has increasingly moved towards the capitalist form from their earlier mode. They were not feudal in the classic Western mould but now because of the hegemony of the West and the Indian ruling elite's inability or unwillingness to think through an alternative for itself, economic structures are more capitalist in nature.

Capitalism at its most basic level is based on conflict between capital and labour (in the abstract sense of the words). The conflict plays itself out at different levels — in the market and over government policies (Kumar, 1999). Labour was weak in the market to begin with and so was agriculture. It was the role of the state (between 1947 and 1991) that gave the former certain leverage in their conflict with capital and gave the latter some support against non-agriculture.

Till 1991, the shift towards capitalism had coincided with a greater role for government and, therefore, its policies were important and came into growing conflict over government policies. Not satisfied with what they could obtain in the market, various interests in society resorted to the black economy which helps circumvent the legal framework of the markets as set up by the state. This gives the black income earners an increased share in national income which is what the basic conflict under capitalism is all about.

In brief, the political economy of India has centred around:

(a) the idea of quickly achieving western modernity,
(b) marginalisation of the traditional structures, and
(c) the emergence of three different kinds of conflict in society and the changing balance amongst them.

The conflicts have been (i) the market, (ii) over government policies, and (iii) through the black economy. Prior to 1991, the second and the third form of conflict increased in importance. In the 1980s, during the Rajiv Gandhi era the opening of the economy became more explicit and policies became more pro-business, marginalising the others. The shift towards the markets accelerated after 1991 with the strategic retreat of the state so that the importance of government policies declined. Consequently, labour and agriculture weakened steadily. The importance of MNCs increased. Due to the continued desire for primitive accumulation of capital, the black economy has continued to grow unabated.

4.3. The Global Factors and Changing Strategic Alliances

The phases of the economy have also been strongly affected by the global developments and this is not just a coincidence. To begin with, there was the dependence on the British because of the close military ties, including the fact that most of the military equipment was of British origin. The Indian ruling elite had mixed feelings towards the British. While the elite was in awe of the British and so were many of the common people who had accepted them as their rulers there was an important section that under the influence of the nationalist movement saw it as the coloniser that had kept India down and caused its backwardness.

In the 1950s, the Cold War was at its height. Anyone seen as remotely pro-Communist was persecuted in the US. India was a newly free country and in one corner of its heart it did not trust the West because of its image of colonisers. Hence, it did not wish to completely side with it and thought of non-alignment as a way of maintaining independence between the two antagonistic Western camps (the Western and the East European blocs), taking advantage of both. There was enormous pressure from the Western bloc to side with it and that had to be warded off.

India was an active member of the Non-Aligned Movement (NAM) and provided leadership to this grouping. It was an active movement till the mid-1970s but it did not realise its potential due to the souring of the India-China equation from 1959. There was the growing alignment with the USSR in the 1960s and the 1970s, with the Western bloc since the mid-1970s and with the US since the early 1990s. In essence the NAM never came into its own except for showing great promise in the initial years.

The decline of the USSR and the about-turn in China in the mid-1970s made the West realise that the developing world had nowhere else to go to and it started to show its true colours. From the early 1980s, there was pressure in GATT to introduce new subjects so that the advanced countries could capture new markets in the developing world. The IMF and the World Bank became more assertive forcing developing countries to open up their economies. In the early 1990s, talk of aid to the developing world gave way to capital flows. The developing world had to give explicit concessions to Western capital to attract it. These developments had their ring in Indian policy making, too.

The separatist movements in the North East, J&K and Punjab with support from outside accentuated in the late 1970s and continued in different forms. This was a strategy to keep India weak. The Naxalite movement in Eastern India in the late 1960s also derived support from outside powers but was more indigenous and ideological than the other separatist movements. It was brutally crushed by the state in the 1970s only to resurge in the early

1990s as disparities grew and corruption became rampant leading to widespread policy failure.

Developments in Afghanistan since the 1970s, including the war against the Soviet forces, the pumping in of arms by the West, the raising of the fundamentalist forces (Taliban) to counter the "godless" Russian communists and the Islamic revolution in Iran in 1979 have had their profound effect on India and its communal situation. The use of Pakistan as a frontline state by the USA to fight its wars in the Islamic world and in the Middle East has had repercussions for India, too.

In South Asia where India is seen as a Big Brother by its neighbours — Nepal, Bangladesh, Sri Lanka and Pakistan. This has led to lack of trust on India in various degrees, with repercussions for the external environment. This has enabled China to expand its area of influence in South Asia, including in Myanmar. Tibet has proved to be a special case and a sore point between India and China.

Until the late 1960s, due to the situation in Vietnam the West was worried that India could also turn Communist and tolerated its non-alignment. Due to the strategic alliance between India and the Soviet Union in 1971 and the rapprochement between US and China in 1972 to counter the USSR, India came under greater Western pressure. The situation further changed after 1975 with Mao's death and the U-turn in Chinese economic policies, the continued decline of the USSR, especially with Afghanistan becoming its Vietnam and the Emergency in India leading to a rightward shift in policies. These rapid changes in the international arena had their repercussions on India's economy.

Unfortunately, in India, as argued earlier, formulation of foreign policy is rather opaque with little public participation. Hence, it has been guided by the vision of a small group and has been buffeted by events and changing global alliances. Often, it has remained in the British imperialist mould so that new parameters of policy, keeping in view the needs of non-alignment never got developed. The unstable environment in the country's immediate neighbourhood has resulted in large unproductive expenditure, which has undermined development and also lent itself to nationalistic jingoism, thus diverting national energy to emotional issues and away from the real problems.

In contrast, China has been characterised by a long-term vision and clear definition of its interests so that it has pursued its interests far beyond its borders, lately, even in Africa and Latin America. When required, China has not hesitated to take on even super powers like the Soviet Union — for instance, in 1959 when it was very weak militarily, isolated from the rest of the world and heavily dependent on Soviet armament. Compared to this, India has been characterised by shifting alliances and has mostly fitted into

others' interests. China allied with the US on its own terms (not as a subordinate power) and today it is seen as the principal global challenger to the US power.

In brief, India has been unable to clearly define its global interests and, therefore, has not been able to clearly formulate policies so that it has been buffeted by the changing global scenario. These have not only had their impact on economic and political developments in the country but also resulted in uncertainty because of changes beyond its control.

4.4 Major Economic Shifts

At the next level, phases of India's economic development have been determined by major shifts in economic thinking and policies, partly due to the above two factors. Some of these maybe listed as:

(a) Introduction of central planning from the early 1950s,
(b) Heavy industrialisation from mid-1950s and the setting up of the public sector,
(c) The curtailment of planning and public intervention after the 1966 drought,
(d) The initiation of Green Revolution in 1967 and the drive for self-sufficiency in food,
(e) The growing dependence on imported energy and the repeated oil shocks since the early 1970s,
(f) The initiation of consumerism in the early 1980s, leading to rising imports and borrowings,
(g) The launch of the Uruguay Round of negotiations in 1986 and its culmination in 1995 in the creation of the WTO, which has forced India to open its markets to the detriment of agriculture and small scale industries, and finally, and
(h) The rapid opening up of the economy starting 1991 when the NEP was launched.

The last two factors can be said to have the same origin so one can treat them together.

It is clear from the above that in economic terms, the pre-1991 and the post-1991 phases of the economy have gone through different stages. Consider the example of convertibility. Trade account convertibility was implemented after 1991, then current account convertibility along with partial capital account convertibility was introduced. Moves for introducing full capital account convertibility were initiated twice but global events intervened and the move was scuttled (*see* Chapter III). Similarly, disinvestment

and privatisation have been introduced in several stages and with numerous kinds of experimentation. The entry of foreign capital has also gone through stages.

Usually, most economic analysis is carried out in purely economic terms ignoring the other developments and the phases of the economy are defined in terms of economic changes. However, as discussed in the previous sections the specific economic changes are set within the larger changes and determined by them. Therefore, the characterisation of the phases should be based on the bigger picture.

4.5 Defining the Phases of the Indian Economy

On the basis of the three broad aspects mentioned in Section 4.1 and discussed above, one can define the following phases of the Indian economy since Independence. The non-economic factors have economic effects too, possibly with a time lag. Thus, growth rates change not because of something that happens at that instant of time but due to the causes that came into play earlier. For instance, the decline in food output in the drought of 1966-67 was sharper and caused severe problems because of a lack of adequate attention to agriculture during the Five Year Plans. Similarly, the cause of the crisis in 1989-91 lay in the profligacy during the 1980s.

I. One-Way Globalisation based on Self-Reliant Indigenous Development and with Focus on the Role of Collectivity

1. 1947-48 to 1961-62: Base of India's indigenous growth strategy laid, large role given to the state and the public sector, strengthening of socio-economic structures but with top-down growth. Creation of the momentum of economic growth.
2. 1962-63 to 1969-70: Weaknesses of the initial strategy emerge, wars, economic stagnation — loss of the momentum of self-reliant indigenous growth.
3. 1970-71 to 1974-75: Growing internal strife and conflict over policies, closer alliance with the USSR and oil shocks. Reduction of role of MNCs.
4. 1975-76 to 1979-80: Emergency, black economy becomes significant, China turns around, USSR weakens, rise of neo-liberalism, Afghanistan and Iran problems aggravate. Oil crisis. Beginning of the rightward drift and decline of planning.
5. 1980-81 to 1990-91: Opening up of the economy begins with consumerism, foreign borrowing shoots up, budgetary deficits balloon, Uruguay Round of trade talks initiated, terrorism grows, growth accelerates but

heading towards a crisis. Services sector increases in importance while agriculture declines in weight in the economy. Oil crisis leads to BOP crisis

II. One-Way Globalisation based on Marketisation with Focus on the Role of the Individual

6. 1991-92 to 2002-03: NEP and dichotomous growth with no acceleration. "Strategic Retreat of the State" and decline in the influence of agriculture and labour. Creation of WTO, implementation of strategy of "Market-Friendly State Intervention" and spreading influence of international finance capital. Conditions for highly iniquitous growth created. India begins to swing towards an alliance with the US.
7. 2003-04 to 2007-08: "Growth at any Cost" and unsustainable path of high growth with rapidly increasing disparities, growing environmental damage and resources being handed over to select few business houses. The potential for a downturn builds up. The crisis of the dollarisation of world economy and sub-prime crisis in USA begin.
8. 2008-09 to 2010-11: Emergence of the Crisis of "Market-Friendly State Intervention" strategy. Loss of momentum for economic growth based on the marketisation strategy. Rise of importance of China with global economic crisis.

5. Conclusion: The Continuing Disruptions

In this chapter, the events affecting the Indian economy, as described in Chapter III, have been used to identify the phases of the economy. It is clear that the phases are extremely hard to identify since there are many factors affecting the Indian economy from the historical to the current national events to the international / global changes taking place. This chapter suggests that the phases need to be defined with reference to several levels and identifies three major levels based on the nature of globalisation, the major global and national events / factors and the economic developments in the Indian economy.

Disruption and its effects persisted in society after 1947 and manifest themselves in different ways through the various phases of the post-independence economy. They have resulted in all round under development / backwardness which needs to be tackled if India is to catch up and be called developed. Further, only if the current weaknesses are overcome can we think of an independent path of development based on our requirements. At the present juncture that seems well nigh impossible with the Indian ruling elite headlong rushing to catch up with Western modernity rather than attempting an independent path.

Society is never in a situation akin to that obtaining in a scientific experiment where there can either be a controlled environment to try out things or where one can experiment with a situation and not finding it suitable, reverse it and try something else. In other words, there can be no time reversibility in society unlike in a scientific experiment. There is no going back and starting all over again. Further, people's attitudes are shaped by their experiences and cannot simply be erased. When mistakes are made, there are costs for (some) people and that changes their attitude about policies, etc. Later, it becomes difficult to make them change their judgements. Thus, usually, social change is slow no matter how desirable the final goal.

The disruptions of the past have conditioned the beliefs Indians hold. In 1947 India started from the initial conditions of backwardness, poverty, illiteracy, domination of backward agriculture and so on. The national goal was to overcome these drawbacks quickly. But in the prevailing context in 1947 of feudal attitudes, inadequate dynamism in society and lack of understanding of the Indian context of development the leadership went for non-solutions borrowed from the West. That created newer problems and complicates the identification of the different phases of the post-independence economy. The most important of the continuing problems facing the country has been the loss of dynamism and the belief that there cannot be an independent path of development.

This chapter points to the absence of leaders with a long run vision and therefore of a lack of self-confidence in the nation. In recent times Gandhi has been the only exception to this but he had little chance to guide independent India. It must also be said that most of his ideas were too radical for the Congress leadership and by default they had been rejected by that party even during his lifetime.

The chapter points to short termism as an important aspect of disruption of society. It has resulted in the narrowing of horizons of society in space and time. The lack of focus on children's education and health is an aspect of this and indicates a lack of concern with the future. Poor quality education for children where it is available, tolerating the existence of child labour and continuing malnourishment are signs of an indifference to our future.

In brief, in the post-independence period, we have not been able to throw the yoke of the West by falling into the trap of copying Western modernity. For instance, advertising, fashion and notion of beauty are all strongly affected by the West. Our architecture, sports, film lines and even songs show a strong impact of Western ideas. This was not anticipated by leaders of the national movement and the leadership that came later did not even have the background or the experience of struggles to think differently. Thus, disruptions have continued at the political, economic, social and cultural levels.

At the political level the disruptions have been in the relations between various social groups, more specifically, that between the rulers and the ruled. The divide has only grown and not narrowed over time. That is because of the role played by the leadership which has not enabled democratisation to take roots because it has largely remained feudal in its attitude and thought. Further, the institutions set up by the British for the purpose of control have continued after independence with little change. They were set up to further the interests of the colonial power and not to serve the public interest. This police, the bureaucracy and the judiciary were never democratised. They were trained to serve an undemocratic master / ruler in a highly feudal mould and were adept at the use of divide and rule and not to unite. All this has helped to reinforce the feudal relationships in society — dignity of labour is still missing. Even those of the elite who return from the West and have seen a more democratic system quickly fit into this feudal system. That is why most of the elites shun working with hands or look down upon it.

The quality of the leadership has been poor and it has degenerated over time. Often it is anti-people because of its links with the various vested interests. It is often non-accountable to the people and seldom fulfils its electoral promises. Thus, democracy has been severely undermined and has become formalistic — form without content.

At the economic level, the disruptions caused in the pre-independence period due to the siphoning out of surplus from economy leaving little for investments has continued. At the time of independence this left India with a very backward economy and the prevalence of feudal economic relationships over large parts of the economy. Most of the population was dependent on backward agriculture and sixty years after independence, a majority still do so. The economy had a weak non-agricultural base — both for large and small scale sectors. The services that existed were largely linked to the requirements of the Raj. Towns were largely created for the bureaucracy, the judiciary and for the governance of the hinterland (*see* Chapter IX, Section 3). There were few industrial centres. Productive services such as trade, finance, etc. remained weak. These aspects have reflected themselves in the post-1947 Indian economy even though the economic base is now far more diversified. The unorganised sectors and the small and cottage sectors with low levels of technology continue to be large.

The most critical disruption is in our education and S&T because that is where society's dynamism comes from. Generation of new thoughts is dependent on it to a large extent. At the time of independence there were few educational and research institutions — schools, colleges and universities and even fewer institutions for S&T (*see* Chapter II). Today, institutions of higher learning are largely bypassed by society because it is used to simply borrowing ideas from the West. Thus, little research is being done even in

the best Indian institutions, such as the IITs and the IIMs where the cream of the students study (*see* Chapter XI). The idea that education should be cheap and subsidised is not welcomed because it is seen to be unnecessary.

During the colonial period, solutions were borrowed from the colonial power. These were non-solutions since the problems faced by the colony and the coloniser — due to the levels of technology — were vastly different. For instance, to suit the needs of the colonial power, railways were introduced in preference to canal transportation even though the latter would have benefited in irrigation as well.

To conclude, the key disruption running through the post-independence period has been the loss of value of ideas leading to loss of dynamism and short termism which have also resulted in environmental destruction. Internationally, it has resulted in our inability to take a consistent line and thus our proclivity to fit into the agenda of others. The various forms of disruption created during the British rule continue to play themselves out in different forms and are visible in the various phases of our economy.

Chapter V

Theoretical Aspects: Macroeconomic Policies, Resources for Development and Government Intervention

1. Philosophical Aspects Underlying Policies

It is easier to formulate policies for a sector or an industry or an activity than to formulate holistic policies for an economy because of the complexity involved. The latter requires a degree of theorisation, which is much greater than required for the former. Often then, holistic policies are not attempted by policy makers but this is no option since without them, sectoral policies run into contradictions and often fail.

In India, with the adoption of the planning process, there was an attempt to formulate holistic policies for the economy. For instance, planning required taking into account resource mobilisation, expenditure policies, employment policies, financial policies and technology policy, among others, in an integrated manner so as to arrive at the correct policies for, say, agriculture or industry.

With NEP adopted in 1991 this idea of a holistic vision underlying policies has given way to a focus on sectoral policies. Therefore, there is much lesser coordination among policies. Often this results in contradictions with policies catering to one sector creating problems for another. For instance, policies with regard to agriculture and food security based on high technology and import of food have resulted in problems for employment generation. Similarly, policies of globalisation implemented in the case of the industrial sector are leading to problems of unemployment and marginalisation of the marginals.

Economic development results in nation building. But this requires a vision which cannot but be a long run vision. As discussed in the Preface, all important ideas are long run, such as environment, morality and democracy. For policy making in the current context, the key notion of importance is the nation and as discussed in Chapter IV, it is also a long run idea. Unfortunately, a short termist leadership and ruling elite has only seen it in a narrow and limited context of fulfilling its vested interests and hence as means /

justification of its desire for primitive accumulation of capital and wealth through black economy and extreme exploitation. To them, alienation of the citizens does not matter and continued grinding poverty is to be taken in its stride as long as they can make gains and join the international elite. Hence, increasingly policies are designed to achieve these limited goals. Some of them are discussed below in this chapter.

The overarching policies are with regard to globalisation, planning and public sector, consumption, investment and savings, fiscal policies and financial sector policies. These are discussed below. Other important overarching policies such as trade, black economy, education and science and technology and sectoral policies / developments are discussed in the following chapters.

1.1 Current Globalisation: Desirable for Whom?

The current phase of globalisation starting in 1991 is characterised popularly as LPG — liberalisation, privatisation and globalisation. But these three terms are captured by a common idea, namely, the current phase of globalisation is the marketisation of the social processes (More in Chapter VII, Section 3) whose underlying basis is the conception of man as homo-economicus. Man is increasingly thought of as a sophisticated machine that can perform many tasks and nothing more. That is why he can be substituted by machines, consequently unemployment is not a problem. That is why, in the current policy framework individuals are supposed to go to the market to get a job and if they are unable to find employment then it is their problem. It is in keeping with this philosophy that human beings are considered as resources — human resources. That is why the task of education is considered to be to generate human resources and not create holistic citizens. Man can be mechanically encouraged to consume more (say, through advertising) so as to promote production of more goods and services, which is considered to be desirable for increasing production. In this view, increased consumption is considered advantageous since it leads to increase in welfare of the individual. It is also supposed to lead to efficiency and increased competitiveness, especially in the international arena.

It is another matter that this notion of efficiency degrades human beings, especially workers. Further, international efficiency is supposed to be based on the idea of international division of labour based on division in technology with advanced countries producing high technology goods and the developing world producing the low and intermediate technology goods and services. Also, this kind of division results in the developing world producing polluting goods and thereby damaging their own environment. This comes at a heavy long-term cost, especially for the poor in the developing world.

The encouragement of consumerism giving rise to ever-increasing consumption results in the degradation of the environment even though it brings in higher profits for industry. This short-term thinking comes in the way of the long-term interest of society, which has to bear the cost of the environmental degradation.

These features bring to doubt the notion that the current form of globalisation is desirable — this does not mean that all forms of globalisation are bad since it is possible that some other form of it (say, two-way globalisation) may be good. There cannot be a general argument that globalisation is good, instead one has to show that the specific form being propagated is socially desirable. It is also possible that desirability may be from tne point of view of some section of the population (say, the elite who are driving it) but not for all. The current form of globalisation enables the elite class in the developing countries to benefit through greater exploitation of labour and of environment but then it is not good for the rest. However, environmental decay cannot be good for the elite either even though they can protect themselves from its harmful effects by creating their own enclaves (such as gated colonies and SEZs) but even this leads to suffering for the poor through displacement.

1.2 Assessing the Role of MNCs in India

With the launch of NEP, the earlier policy of encouraging indigenous industry and discouraging multinational corporations (MNCs), largely originating in the advanced countries, was reversed. Under the provisions of WTO also (after 1995) foreign capital was required to be given national treatment. Thus, higher taxes on MNCs compared to indigenous industry, dividend balancing and phased manufacturing programme were eliminated. Further, since growth was now to depend on attracting capital, concessions had to be offered to foreign capital.

Globalisation is associated with the entry of MNCs and their worldwide expansion. Currently it is accepted that MNCs are good for the globalisation processes and for the nation. It is said that they are supra-national and, therefore, do not represent the interest of any single national economy but that of all nations. What this ignores is that most MNCs originate from a nation and mostly from the advanced countries. Till recently, the developing countries owned hardly 10% of all the MNCs in the world and that too, the smaller ones. Thus, the production of the MNCs originating in the developing countries hardly amounted to much of their total output. However, of late, some large Indian MNCs have emerged but many of these are headquartered in the West. Chinese MNCs have also expanded fast.

It is suggested that the developing world should not be opposed to the growth of MNCs in their own economy because they bring the much-needed capital and technology. But this logic is erroneous. MNCs undoubtedly bring with them advanced technology and management practices but this is precisely the reason they displace labour and force others also to increase their capital-labour ratio resulting in jobless growth in labour surplus economies. If they displace production already taking place in the country by their own production, they generate very few jobs but displace large number of jobs from the existing lines of production. For example, in India the making of potato chips by MNCs displaces large number of women in the cottage sector who used to make them. Similarly, it is clear that large MNCs entering retail trade will displace a lot of neighbourhood shops or small retailers in the country. Whether this would be of benefit to the small farmers (as claimed by its proponents) is unclear.

In 1991, the top 20 MNCs in the world produced an output which was six times that of India's GDP but they employed only 5 million people whereas the Indian economy then employed 300 million people. Thus, using the technology and the practices of the MNCs in the entire country would have meant that only one million people would have had a job leaving the remaining 299 million people unemployed (Kumar, 1994a). Not that such a situation is about to occur but it suggests the non-viability of inviting MNCs into India in a big way.

MNC investment is supposed to bring in foreign exchange and relieve BOP difficulties for the country. India has accumulated large foreign exchange reserves due to the flow of foreign capital over the last 12 years. However, historical experience shows that in India foreign capital has led to increased exploitation over time and outflow of foreign exchange. Companies investing in India used to repatriate the entire capital brought into the country within a few years due to the high profits they used to earn. However, it is argued that as long as the funds coming in are more than the amount going out, the BOP gets support. Further, the scenario has changed with the MNCs reinvesting their profits for further expansion. However, the problem shifts to a different front.

Opening up of the economy has been accompanied by the opening up of the financial markets so that portfolio investments also flow into the economy. These are supposed to be short-term flows constituting hot money flows which can destabilise the markets and, therefore, the economy. This was seen during the recent global crisis in 2007-08 when funds from the stock markets went out of the country rapidly leading to its collapse from its peak. It had been argued by the supporters of liberalisation that the funds would not leave rapidly since they would then incur losses. The critics had argued that for the financial companies, their parent country would prove to

be more important and this is what happened with funds moving out of India (even at a loss) to provide liquidity in the parent country.

It is also argued that the MNCs not only repatriate profits but make payments on other accounts, too. They pay their parent firms royalty on the technology borrowed. They often indulge in transfer pricing to repatriate profits to tax havens or to their parent firms. They source supplies from other related firms outside so that the import intensity of production rises, leading to larger outflow of funds. They also seek consultancy and audit from firms they are in touch with leaving little chance for local firms to take on such assignments. The consultants then suggest other foreign firms for purchase of equipment where again indigenous firms lose out. In fact, even indigenous firms (including PSUs) start going to the expensive "reputed" foreign consultants to build links with them to get business. Thus, foreign exchange outgo increases in many ways other than the repatriation of profits, increasing the economy's vulnerability. It is not that Indian firms have not been adopting some of these sharp practices but in the permissive environment created for the MNCs, such practices have increased manifold. Finally, if the political will exists, it would be easy to control these practices by Indian firms but not the MNCs.

Do the MNCs enable access to modern technology and help upgrade local technology? To an extent this happens when they source inputs from the local economy for which they part with some technology as has happened in the automobile sector. It also happens when high technology companies (say, in electronics or software) set up research facilities in India, to take advantage of cheap manpower. This provides jobs to local talent and slows down brain drain. However, the know-how and the know-why is usually not transferred to locals and especially when complex advanced technologies are involved. Without this, learning cannot take place locally and repeated import of technology becomes essential. In the case of intermediate and low technologies, transfers take place with royalty payments and because of protection under the new regime of intellectual property rights (IPR) they cannot be easily copied so that the firms using these technologies end up importing the next stage of these technologies. One of the key effects of the presence of MNCs with much more advanced technology than the indigenous firms have is that the latter invest little in R&D because most of the time what they can develop has already been developed. If they try to develop something new, it would require jumping several generations of technology. This would be highly risky and require large investments which the Indian firms can ill-afford.

The MNCs not only exploit cheap manpower in the developing countries (like, Nike does in Indonesia) but also the lax environmental regulations, which enable them to generate a higher profit and often to circumvent their

own national regulations. In fact, they have indirectly forced the poorer countries to relax their already lax environmental regulations so as to attract capital (*see* Kumar, 1994a). The problem is further compounded by the widespread corruption in these countries so that huge profits can be generated by cutting corners (which they cannot afford to do in their home economy). In the case of the Bhopal Gas leak, the initial scientific committee set up by the Department of Science and Technology found:

(a) rather than store MIC in small tanks, it was stored in huge tanks,
(b) tanks were not refrigerated,
(c) caustic soda required to neutralise MIC in an emergency was grossly insufficient,
(d) products of MIC reactions were present signifying that contamination had taken place,
(e) the escape vent and the scrubber on the tanks hardly worked, and
(f) there were possible leakages due to which water entered the tank leading to runaway reaction.

None of this would have been permitted in Union Carbide's home country, the USA. Conditions were ripe for anything that could go wrong to go wrong, and they did.

Further, the MNCs originating in a country represent predominantly the interest of that country and hardly that of the other countries they operate in. That is where they pay their taxes, especially when there is a double taxation treaty. They may pay higher salaries in the developing countries than local industries but much less than in their own countries. In fact, that is why they relocate production — to take advantage of lower labour costs. When they face a problem, the MNCs look to their own country's political classes for help. For instance, when Enron was facing hostility in India in the 1990s they flew in Mr. Henry Kissinger, Secretary of Energy and Secretary of Commerce to pressurise the Indian government. Clearly, Enron acted as a US MNC and the US political class helped it. In the case of Union Carbide and Dow Chemicals, the companies with culpability in the Bhopal gas disaster of 1984, the US government applied pressure on India to allow them to get off lightly. Such examples can be multiplied manifold. Today, in the midst of the global crisis General Motors was protected by the US government, not the Germans where it has large operations. Recently, in the Gulf oil leakage from BP's production platform, US regulators and legislators treated BP as a British company. BP was also involved in the release of the Libyan Lockerbie bomber from a British jail so that it could get oil concessions in Libya and it is being criticised in the US for this action. Similarly, when companies face problems in trade, they are represented in the WTO by the country of their origin and not the country or countries of operations.

Additionally, the MNCs become influential and start influencing policy both directly through their governments and also indirectly through the setting up of joint business councils and the people they employ. They build powerful lobbies in their country of operations to serve their interests. This does not remain confined to economic matters but spills over to the political and social aspects as well. For instance, they offer high paying jobs, consultancies and foreign trips to influential people and offer employment to their children. Big MNCs are known to have initiated wars and funded private armies to support their interests.

In brief, while there are some pluses, there are also many minuses of MNCs operating in the developing world. So, one cannot make a case that MNCs are, in general, good for the economy. Their usefulness for the economy depends on many factors such as whether they provide access to a critical technology. The specific usefulness in a given situation needs to be considered to assess whether they are of benefit or not for the economy in particular and society in general.

1.3 Marginalisation of the Marginals

It has been seen that after 1991, disparities of various kinds — between rural and urban, organised and unorganised, agriculture and non-agriculture sectors and so on — have tended to increase in India. However, some people argue that with growth there should be a convergence and disparities should narrow over time. This needs careful analysis to understand the issues involved.

1.3.1 Theoretical Aspects of Current Development Theories

Standard economic theories available to us are unable to fully explain developments in India, such as the dual sector model of Lewis (1954). Their assumptions are questionable. They have neither been fully applicable in the advanced countries nor seem to be good for the developing ones. They provide justification to the notion of trickle down and counsel patience to the poor. This is akin to the preaching of the *Geeta* (the gist of Krishna's advice to the world) that man should continue to do his assigned work in life and not look for the rewards which would come on their own. Things can be expected to change automatically at the appropriate time. This is status quoist. The elite who are the biggest beneficiaries of the current rules of the game can continue to enjoy the gains undisturbed because the marginal would wait patiently for their time rather than protest if they accept such preaching. Implication of Lewis' kind of model is akin to saying "things will be OK in the end" — poverty and backwardness are only transitory.

To capture development, Lewis (1954) gave a model which had one advanced sector and another backward one. The first sector had both higher

wages and productivity while the backward one had both lower wages and productivity. Expansion of the advanced sector with increasing investment is supposed to increase employment generation there and lead to sucking in labour from the contracting, backward sector. The share of the former sector would grow with time and this is what development is supposed to be all about. The question is whether this can be the usual pattern of development of a backward economy or is that how the advanced economies transformed themselves? It is clear that this model may have been applicable to the advanced economies in their early stages of development when they were mostly closed and were not interacting with other more advanced economies with better technology.

What Lewis' kind of model did not have to contend with was the vast technology gap between the modern and the backward sectors because of the existence of other nations with high technology. The advanced nations themselves had a natural evolution from low to high technology so that at any point of time the gap between the two sectors was small. In India's case, while the backward sector is working with technology which at times predates the industrial revolution in Europe, the modern sector has the technology of the 20^{th} century, which is highly automated. No wonder then that this sector has a high capital-labour ratio and depicts jobless growth. This sector providing rapidly rising employment to pull labour out of the backward sector has been a non-starter.

Further, the advanced sector has required large amounts of capital with little left for investing in the backward sector so that the latter has languished resulting in low employment generation in this sector as well. Further, due to the large degree of monopoly enjoyed by the advanced sector it has worked on high margins of profit. In contrast, the backward sector has not only had lower wages but also lower profitability because of difficulties in credit, marketing and technology.

So, in spite of lower wages the backward sector works at lower profit margins. This differential in profitability results in lower investment levels in the backward sector. Consequently, this sector also generates little additional employment. That is why in India the problem of under-employment has been high and it has resulted in a reserve army of labour which keeps the wage level low, both in the organised and the unorganised sectors. The wage level has risen only in those advanced sectors where there is an international demand for skills (due to shortages), such as in the case of managers, engineers and software personnel.

This pattern of development has resulted in high growth in the advanced sector but it has been jobless. Consequently, the rate of growth of the economy has depended on the growth in this sector. And, using this fact it has demanded and obtained more concessions from the government to expand

faster. This further increases the differential in profitability between the two sectors and leads to greater skewedness in investments.

Further, Europe developed at a time when surplus labour displaced by industrialisation and mechanisation could be exported to the colonies or to the newly discovered and fast developing Americas. India cannot send its labour anywhere even though because of the vast technology gap, the displacement of labour by modern industry is much larger. In a sense, agriculture and the unorganised sectors are acting as the residual sectors absorbing the surplus labour. This is a far cry from the assumptions of the Lewis model.

The successful NIC and China are presented as enticing examples of possible success of the path suggested. Naturally, other developing countries are encouraged to emulate them. Not to decry the success of these economies, but it is important to remember that these countries have been allies of the West and were given access to technology and markets which helped them become large exporters. So, they could grow fast and this helped them absorb surplus labour. Can the entire developing world follow this kind of model? China has expanded fast and yet had massive problems with its rural population which is migrating in search of jobs. Its authoritarian structure has enabled it to keep the political problems associated with displacement, unemployment, disparities of incomes and poverty under the lid. This is not feasible in India even though we are also moving in the direction of suppressing dissent.

In India, when there is talk of balanced development at a slower but inclusive pace, the modernisers brand such people as anti-development. They accuse them of glamorising poverty and perpetuating it. What they forget is that their prescriptions have perpetuated poverty with a changing face (Chapter X) and focused entirely on the elite's progress. When they talk of high growth and modernisation their reference point is their own progress — the rest are residual and their welfare incidental.

These aspects are reflected in the elite's attitude to the process of current globalisation, MNCs and trade, nature of industrialisation, the kind of fiscal stance taken by the government and the forms of government intervention practiced in the economy, including the public sector and most importantly, the role assigned by society to knowledge generation including science and technology education in general and more particularly the view about schooling. These are discussed in detail later in Chapter XI.

In brief, the available theories of development are based on the western experience of development. It is ahistorical to impose that experience on the developing world. Yet that is being done since the western economists are pushing for it and Indian intellectuals (being "derived" intellectuals) also push for the same so that it appears as if there is a consensus amongst all economists regarding the manner in which underdeveloped economies

should develop. It does not matter to the mainstream that for the last sixty years these theories, in their various vintages, have not delivered to the vast majority of the poor in the world. How long before one can say all is well that ends well? The existing theories of development may be characterised as a part of the continuing disruption of society. The self-serving attitude of the elite which readily accepts them is a part of the disruption of society.

1.3.2 Lack of Transparency in Policies: The Example of Budget Making at the Centre

In India, the gap between words and deeds is wide due to lack of transparency. This results in policies being circumvented. It enables vested interests to have a say in the day-to-day functioning of the government while the common people remain excluded. Even the Opposition, which is a part of the ruling elite, serves the interests of lobbies and proves to be of limited value. This can be illustrated by considering the most important economic event in the nation's annual calendar — the formulation of the Union Budget and its adoption by Parliament.

The annual Union Budget for any year is presented to Parliament in advance, before the beginning of that financial year starting 1st April. It is based both on what has happened in the current year (the year in which it is being formulated) and what is expected to happen in the coming year. As such, it presents budget estimates based on expectations and not actual numbers and is a guesstimate.

The process of formulation of the (next year's) budget takes six months and is started in September even though the budget is presented on the last day of February. Discussions with various interest groups are initiated and memoranda submitted by these groups. Only those with access to ministries are able to participate in this process. The common man has little input and hears little of the discussions going on in the ministries. Later, when the budget is presented in Parliament it is sent to committees for discussions where again the public has little idea of what transpires there.

Earlier, the discussions were held in Parliament at least for some of the demands and this used to come to the notice of the public. Public opinion could then play some part. It was shifted to the parliamentary committees on the plea that it would get more thoroughly discussed there since the Parliament has only limited time for discussions. But the net result of a supposedly correct reform is that the vested interests have little to fear about getting exposed. The Members of Parliament (MP) who are formally supposed to represent the interests of the citizens but in reality hardly do so, also escape public scrutiny. Policies can then be manipulated with impunity.

Another example of lack of transparency in the budget-making exercise is the repeated changes that the government makes in the data presented and the definitions used. For instance, earlier, in the Receipts budget, data on excise and customs duty collections was given chapter-wise. Each chapter refers to a group of commodities. This helped analysis of rate structures, calculate elasticity and the economic impact of changes made in duties. With regard to changes in definitions, one of the key changes is in the definition of the Fiscal Deficit. This makes the data pertaining to different years non-comparable, yet the government does not make that clear to the public.

The Fiscal Deficit refers to the excess of expenditure over revenues of the government and is a measure of the imbalance in the government's finances. To present a better picture, the government indulges in window dressing through creative accounting by showing higher expected expenditure and even higher revenues. Expenditures are inflated to claim higher allocations to address critical problems faced by the public. Higher revenues are claimed to show that the problems will be addressed without letting the fiscal deficit go out of hand. Where the PSU disinvestment should be shown, how the recapitalisation of the banks is to be accounted for, where the borrowings by the PSUs are to be shown and how the interest-free funds of various kinds are to be accounted for in the budget have all led to confusion with regard to the true magnitude of the fiscal deficit.

These manipulations, make the data series inconsistent, and create problems for analysts. But more importantly, it confuses the public. Numbers in the budgets are manipulated to show better performance — again to confuse the public. Further, after 1991, the financial institutions have, at various times been implicitly told to intervene to prop up the stock markets to give the general impression that the budget is being welcomed. The media also plays this game by interviewing people belonging to big businesses who welcome the budget, which is then shown as the response of the people at large.

Lack of transparency extends to the various Commissions set up by the government to look into various aspects of fiscal policy (*see* Chapter III for a brief list of these Commissions). Most of them have had an agenda to pursue and, therefore, have not adopted a realistic approach based on the Indian reality. This could be seen in the case of the Chelliah Committee on Tax Reform set up soon after 1991 with the agenda of transforming the entire tax structure in line with NEP. The agenda was not to make it suitable for the Indian economy with its problems, the biggest of which was and continues to be the black economy. Dr. Chelliah fitted the bill since he was brought from the IMF in 1976 where he headed the Fiscal Policy division and since then he had a major influence on making our fiscal policies more market friendly.

In fact, Dr. Bagchi, a member of the Chelliah Committee resigned / quit a few months before the Committee's final report was to be submitted because,

according to reports, he did not approve of the constant pressure being exerted on the Committee by the international institutions. Whereas he signed the interim report, in the preface to the final report it is mentioned that he went to the World Bank for a consultancy. This is most peculiar since the consultancy could have waited a few months and if he was agreeable to the recommendations of this most important report he would have completed the work and then left after signing the report. The pressures must have been extreme for such a pro-establishment and mild mannered man to have taken the step.

Similarly, in the case of another report on black economy submitted by NIPFP in 1985 to CBDT, Ministry of Finance, one member of the Committee gave a dissent note after the report was released but this was not incorporated in the final report. He argued that many of the recommendations were not made on the basis of research on these topics carried out by the Committee — they literally appeared from the blue. The ministry found the objections valid, so the report was not published as a government document but as an NIPFP document. Similarly, another report on reform of octroi was not submitted for quite a while. Unfortunately, the principal investigator died and a new compliant investigator was appointed who changed the recommendations to bring them in conformity with the requirements of international agencies. The report was submitted shortly thereafter.

The Report on the Reforms of the Financial Sector in 1993 reproduced the conclusions of the World Bank Report on the Financial Sector prepared in 1989. In fact, the terms of reference of this Committee were as if they were the questions, the answers to which were in the World Bank report and the Committee dutifully reproduced them. Similarly, the Subsidies Committee report in 1997 started with the pre-determined agenda that it would recommend the pruning of subsidies. It did not analyse why they came into being to start with and whether they were serving a social purpose and therefore could not be pruned unless those reasons were adequately addressed.

1.4 Development, Democracy and Environment: Are There Contradictions Amongst Them?

Some suggest that there is an contradiction between development on the one hand, and democracy and environment on the other. It is argued that democracy slows down development or puts impediments in its way. The examples of success of S. Korea, China and Malaysia are contrasted with the slow development in India. In fact, the recent success of stepping up growth in India may also be attributed to riding rough shod over the wishes of the people. It is also said that for a poor society jobs are more important than environment. It is suggested that protection of the environment is expensive and this re-

duces profits and investment so that fewer jobs are created. It is argued that once development has taken place, the environment can also be cleaned up as in the case of the advanced countries (Kuznets' curve kind of argument, discussed in Chapter X).

In the recent rush for "growth at any cost" environmental considerations have been ignored. Further, labour rights have been curtailed to generate higher profits by keeping wages down. That is why no trade unions are allowed in the software industry, call centres and BPOs. Even the Left government in West Bengal had to fall in line with this requirement even though labour conditions in call centres are poor.

This reinforces the general argument that development and democracy do not go hand-in-hand. In a sense this is tautological given the kind of development that is attempted. An alternative path of development where the advanced and the backward sectors are more evenly balanced would not create this opposition. The problem arises because of the concentration of resources in a few hands and the dependence of the rest on trickle down. We can see in the Indian context that trickle down has not been particularly successful and that is why the gap between the rich and the poor has only increased. In the rush for development, where large projects have come up many people have been displaced, who are then told that they would benefit when more jobs come up. However, because of jobless growth hardly any jobs have been created in the advanced sectors and the displaced people have lost their assets but not got much of a benefit from development. They have remained marginal to the development process since 1947.

The logic of the dual sector models could have only worked either if there was a national spirit of working collectively and sacrifice by the elite who were gaining from the development process or India had colonies like the West had when it was going through its phase of dual sector development. This is not the case now for the developing countries, including India. At best, we are using the rural areas as the colonies of the urban areas where surplus labour remains entrenched. Similarly, in the urban areas the slums are like the colonies where also there is a large amount of underemployment.

If the national spirit of collective responsibility had existed within the advanced sector, it would have acted differentially and plowed investment into generating more employment. However, this spirit died a long while ago in the 1950s itself. So, whoever gained from development did not wish to make sacrifices for those who were losing out. They did not want to admit that their gains were based on the sacrifice of the others. They actually believed that their gains were entirely based on their own efforts. They actually have been demanding more and more concessions and since they constitute the ruling class, they gave these concessions to themselves on the plea that

this would accelerate the rate of growth of the economy and that through the trickle-down effect the poor would also benefit.

This kind of attitude has spread through society due to the collapse of a sense of social justice in society because of the rising level of corruption, black economy and rising individualism. If the elite sections did not get the gains that they expected, they resorted to the black economy to make the additional gains. Alternatively, they left the country by migrating abroad with their privileged education and skills to derive benefits for themselves with little thought for the marginalised sections who had sacrificed so that the elite sections could get the privileged education and the resources.

Now these very sections who have gained in the past are arguing for privatisation of education so that their children can continue to benefit from the high-cost private education while those of the marginal classes would be left out. The argument is couched in nationalist terms that the nation is not benefiting much from the expensive subsidised education because the talented leave the country. Rather than asking for the creation of the right conditions so that the talented stay back they are asking for policies that would keep skill development confined to a few so that their children can benefit — a self-serving and myopic attitude (*see* Chapter XI). As argued earlier, most critical ideas in society are long run. For the elite classes that have gained enormously since independence, the lack of social justice, the alienation created in the society and the continued grinding poverty do not seem to matter as long as they can make gains and join the international elite. They have already voted with their feet and the mind which have got internationalised so that the national concerns are no more their own. This is the process through which inequalities in India have led to greater inequalities.

2. Theoretical Aspects of Economic Growth

In an economy like India, growth depends on many factors. For instance, even now, in spite of the sharp decline in the contribution of agriculture to GDP (*see* Graph 3.4 and Table 3.6) it is the source of livelihood for a majority of Indians. Hence, agricultural production used to play an important role in India's economic growth up to the late 1970s but its importance has declined since then. That is why in earlier years, growth was dependent on the monsoons and agricultural production. The rate of growth of the economy used to decline in a drought year and then again recover afterwards (*see* Graph 3.1). This pattern of growth changed from the early 1980s as the share of agriculture consistently declined.

From the 1980s as the non-agricultural sector increased in importance, the growth pattern began following a more standard path observed in a capitalist economy where investments, export surplus (*see* Chapter VII, Section

1.2) and budget deficit became more important determinants of the growth of the economy.

In India, as argued in Chapter III, with the state given a large and important role — post-1947, economic growth has depended on intervention by the government. As government intervention increased it led to a rise in investment as well as creation of demand in the economy. By the 1960s and 1970s government intervention became significant (Tables 3.7, 5.1 and 5.2) and started having an impact on the growth pattern in the economy. For instance, in the mid-1960s when a massive drought affected agricultural production, government intervention in the economy also slowed down. There was a fear that government intervention would increase demand and therefore make inflation worse. This held back government expenditure in the economy. There was a Plan holiday from 1967 to 1969 when government intervention declined. This happened again in the early 1970s due to inflation caused by drought, war and the oil shock.

Another important factor affecting the growth of the Indian economy has been the black economy (*see* Chapter VIII for greater details). It has been argued that because of the black economy, development slows down and the rate of growth falls (Kumar 1999).

In brief, if we look at the major determinants of growth of the Indian economy in the period since the 1980s, they would be investment, black economy and government intervention.

Table 5.1

Major Heads of Expenditure of the Central Government

(₹ Crore)

Year	Rev Exp	of which			Capital Exp (7+8)	Loans & Advance	Capital Outlay	of which Def Exp	Total Exp (2+6)
		Def Exp	Int Payment	Subsidies					
1	2	3	4	5	6	7	8	9	10
1970-71	3,130	1,052	606	94	2,494	1,552	942	148	5,624
1971-72	3,968	1,347	670	104	2,924	1,807	1,117	179	6,892
1972-73	4,538	1,439	776	205	3,319	2,344	975	213	7,857
1973-74	4,777	1,481	882	361	3,441	2,432	1,009	200	8,218
1974-75	5,677	1,920	1,001	419	4,259	2,629	1,630	192	9,936
1975-76	6,978	2,251	1,228	470	5,401	3,151	2,250	221	12,379
1976-77	8,270	2,347	1,488	947	5,387	3,517	1,870	215	13,657
1977-78	9,108	2,386	1,646	1,287	6,398	4,155	2,243	248	15,506
1978-79	10,682	2,614	1,984	1,475	8,084	5,666	2,418	254	18,766
1979-80	11,803	3,094	2,292	1,821	7,159	4,720	2,439	262	18,962
1980-81	14,410	3.278	2,604	2,028	8,358	5,285	3,073	326	22,768

(Contd. . .)

Table 5.1 *(. . .contd)*

Year	Rev Exp	of which			Capital Exp (7+8)	Loans & Advance	Capital Outlay	of which Def Exp	Total Exp (2+6)
		Def Exp	Int Payment	Subsidies					
1	2	3	4	5	6	7	8	9	10
1981-82	15,408	3,844	3,195	1,941	9,857	5,658	4,199	485	25,265
1982-83	18,742	4,494	3,938	2,262	12,049	7,384	4,665	527	30,791
1983-84	22,251	5,189	4,795	2,902	13,283	8,053	5,230	642	35,534
1984-85	27,691	6,324	5,974	4,038	15,941	9,194	6,747	737	43,632
1985-86	33,924	7,021	7,512	4,796	18,742	11,087	7,655	967	52,666
1986-87	40,860	9,179	9,246	5,451	22,056	12,797	9,259	1,298	62,916
1987-88	46,174	8,861	11,251	5,980	22,087	12,793	9,294	3,107	68,261
1988-89	54,106	9,558	14,278	7,732	25,005	14,750	10,255	3,783	79,111
1989-90	64,210	10,194	17,757	10,474	28,698	16,890	11,808	4,222	92,908
1990-91	73,516	10,874	21,498	12,158	31,782	19,652	12,130	4,552	1,05,298
1991-92	82,292	11,442	26,596	12,253	29,122	17,723	11,043	4,905	1,11,414
1992-93	92,702	12,109	31,075	10,824	29,916	16,297	13,385	5,473	1,22,618
1993-94	1,08,169	14,978	36,741	11,605	33,684	20,454	13,089	6,867	1,41,853
1994-95	1,22,112	16,426	44,060	11,854	38,627	23,736	14,891	6,819	1,60,739
1995-96	1,39,861	18,841	50,045	12,666	38,414	24,316	14,099	8,015	1,78,275
1996-97	1,58,933	20,997	59,478	15,499	42,074	27,878	14,196	8,508	2,01,007
1997-98	1,80,335	26,174	65,637	18,540	51,718	34,193	17,526	9,104	2,32,053
1998-99	2,16,461	29,861	77,882	23,593	62,878	44,037	18,841	10,036	2,79,340
1999-00	2,49,078	35,216	90,249	24,487	48,975	24,938	24,037	11,855	2,98,053
2000-01	2,77,839	37,238	99,314	26,838	47,753	23,008	24,745	12,384	3,25,592
2001-02	3,01,468	38,059	1,07,460	31,210	60,842	34,284	26,558	16,207	3,62,310
2002-03	3,38,713	40,709	1,17,804	43,533	74,535 *	31,668	29,101	14,953	4,13,248
2003-04	3,62,074	43,203	1,24,088	44,323	1,09,129 *	28,768	34,150	16,863	4,71,203
2004-05	3,84,329	43,862	1,26,934	45,957	1,13,923 *	28,910	52,338	31,994	4,98,252
2005-06	4,39,376	48,211	1,32,630	47,522	66,362	11,337	55,025	32,338	5,05,738
2006-07	5,14,609	51,682	1,50,272	57,125	68,778	8,524	60,254	33,828	5,83,387
2007-08 RE	5,88,586	54,795	1,71,971	69,742	1,20,787 @	10,992	1,09,795 @	37,705	7,09,373 @
2008-09 BE	6,58,119	57,593	1,90,807	71,431	92,765	8,243	84,522	48,007	7,50,884

(Sources: Budget documents of the Government of India. RBI: Handbook of Statistics on the Indian Economy, 2009. Also see Notes on Tables.)

RE: Revised Estimates. BE: Budget Estimates.

* : Includes repayments to National Small Saving Fund (NSSF) apart from loans and advances and capital outlay.

@: Includes an amount of ₹ 35,531 crore, on account of transactions relating to transfer of RBI's stake in SBI to the Central Government.

Table 5.2

Developmental and Non-Developmental Expenditure of the Central and State Governments

(₹ Crore)

Year	*Centre #*			*States*				*Centre and States Combined*			
	Devel Exp	*Non dev Exp*	*Total (2+3)*	*Devel Exp*	*Non dev Exp*	*Others**	*Total (5+6+7)*	*Devel Exp*	*Non dev Exp*	*Others@*	*Total (9+10+11)*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
1980-81	13,327	9,867	**23,194**	15,961	4,289	2,414	**22,664**	24,480	12,738	661	**37,879**
1981-82	13,791	12,644	**26,435**	17,960	4,997	2,214	**25,170**	28,796	13,609	2,074	**44,479**
1982-83	16,333	15,897	**32,230**	20,649	5,883	2,211	**28,742**	33,643	16,473	1,941	**52,057**
1983-84	19,407	18,364	**37,771**	23,972	6,882	2,686	**33,540**	38,352	19,936	1,701	**59,989**
1984-85	27,375	18,525	**45,900**	27,958	8,340	3,559	**39,857**	46,265	23,390	1,999	**71,654**
1985-86	32,909	20,899	**53,808**	31,733	9,617	3,517	**44,867**	50,509	27,301	817	**78,627**
1986-87	35,498	26,060	**64,778**	36,827	11,220	3,740	**51,786**	61,721	33,609	1,920	**1,00,470**
1987-88	36,573	30,261	**70,461**	42,451	13,322	4,098	**59,871**	66,295	39,027	1,323	**1,10,272**
1988-89	41,536	35,519	**81,529**	46,984	15,886	4,208	**67,078**	74,428	46,292	1,294	**1,26,488**
1989-90	54,204	41,020	**95,224**	53,150	19,253	4,379	**76,782**	89,420	54,267	1,452	**1,45,139**
1990-91	58,645	49,349	**1,07,994**	63,370	22,600	5,118	**91,088**	97,724	64,360	1,436	**1,63,520**
1991-92	59,313	55,170	**1,14,483**	74,588	27,143	6,198	**1,07,929**	1,09,372	72,319	4,214	**1,85,905**
1992-93	65,479	60,584	**1,26,063**	80,567	32,104	6,664	**1,19,335**	1,18,202	82,795	2,046	**2,03,043**
1993-94	72,464	73,586	**1,46,050**	89,388	38,020	7,241	**1,34,649**	1,29,042	1,00,261	3,347	**2,32,650**
1994-95	82,803	82,402	**1,65,205**	1,04,348	49,556	7,650	**1,61,554**	1,50,367	1,19,322	3,185	**2,72,874**
1995-96	84,427	98,632	**1,83,059**	1,14,820	55,379	7,385	**1,77,584**	1,65,361	1,35,274	2,947	**3,03,582**
1996-97	94,197	1,12,217	**2,06,414**	1,32,008	62,095	8,666	**2,02,769**	1,85,368	1,54,900	3,280	**3,43,548**
1997-98	1,10,994	1,27,820	**2,38,814**	1,45,269	71,767	11,099	**2,28,135**	2,01,399	1,78,817	5,086	**3,85,302**

(Contd. . .)

Table 5.2 *(. . .contd)*

Year	Centre #			States				Centre and States Combined			
	Devel Exp	Non dev Exp	Total (2+3)	Devel Exp	Non dev Exp	Others*	Total (5+6+7)	Devel Exp	Non dev Exp	Others@	Total (9+10+11)
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
1998-99	1,37,257	1,50,298	**2,87,555**	1,64,504	86,474	15,383	**2,66,361**	2,39,720	2,15,662	8,563	**4,63,945**
1999-00	1,29,151	1,77,928	**3,07,079**	1,87,297	1,10,206	16,386	**3,13,889**	2,74,483	2,57,142	8,798	**5,40,423**
2000-01	1,39,386	1,97,470	**3,36,856**	2,10,543	1,18,887	17,768	**3,47,198**	3,08,546	2,77,760	9,289	**5,95,595**
2001-02	1,59,364	2,15,456	**3,74,820**	2,16,696	1,38,080	22,536	**3,77,312**	3,32,224	3,07,864	12,879	**6,52,967**
2002-03	1,84,197	2,42,749	**4,26,946**	2,28,416	1,51,898	40,147	**4,20,462**	3,59,329	3,39,523	6,052	**7,04,904**
2003-04	1,95,428	2,43,298	**4,38,726**	2,74,080	1,66,074	76,196	**5,16,350**	4,17,834	3,71,651	6,899	**7,96,384**
2004-05	2,14,955	2,62,904	**4,77,859**	2,93,537	1,88,299	90,518	**5,72,354**	4,45,354	4,16,340	8,063	**8,69,757**
2005-06	2,29,060	2,90,677	**5,19,737**	3,30,044	1,90,021	41,617	**5,61,682**	5,09,525	4,40,377	9,953	**9,59,855**
2006-07	2,55,718	3,41,278	**5,96,996**	3,92,165	2,11,872	53,243	**6,57,280**	5,88,028	5,07,635	13,511	**11,09,174**
2007-08 RE	31,88,34$	40,53,25$	**72,41,59$**	4,93,563	2,41,019	52,907	**7,87,489**	7,36,974	6,02,125	16,731	**13,55,830**
2008-09 BE	3,60,027	4,07,504	**7,67,531**	5,57,116	2,75,609	60,058	**8,92,783**	8,34,345	6,31,255	19,935	**14,85,535**

(Sources: Budget documents of the Government of India and the state governments. RBI, *Handbook of Statistics on the Indian Economy, 2009.*)

Note:

RE : Revised Estimates.

BE : Budget Estimates.

: Includes gross expenditure of commercial and postal departments in respect of Central Government's Revenue Account.

* : Comprise discharge of internal debt, repayment of loans to the Centre and compensation and assignments to local bodies and Panchayati Raj institutions.

@ : Adjusted for repayment of loans by the State Governments to the Centre as given in Central Government Budget documents. Includes repayments to National Small Saving Fund (NSSF) by the Centre for the years 2002-03 to 2004-05.

$: Inclusive of an amount of Rs.35,531 crore on account of transaction relating to transfer of the Reserve Bank's stake in SBI to the Government.

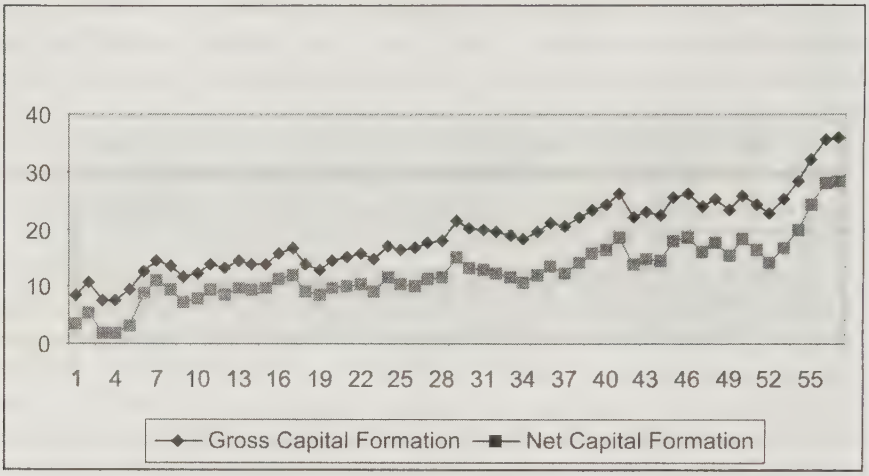
Investment in the Indian economy has been consistently rising since the 1950s (*see* Table 3.6 and Graph 5.1). As an underdeveloped economy India had a low rate of savings and investment in the 1950s due to the low per capita income in the country so that a bulk of the income was spent on consumption and little surplus was available for investment. The problem was aggravated by the rich who could have saved but did not since they had a feudal and wasteful life-style. With the abolition of the Zamindari system and the decline of this class and the emergence of the middle class, the savings and investment in the economy went up from the 1950s itself. (*see* Graphs 5.1 and 5.2 and Table 3.6).

With the advent of the planning processes the share of expenditure on the plan in GDP went up (Table 3.7). This provided a fillip to the growth of the economy. There has been a debate in India whether public sector investment results in an increase in private investment ("crowding in") or a decrease ("crowding out"). The latter is based on the idea that resources are scarce and when the public sector takes more of them then less is left for the private sector. The contrary view is based on the argument that public sector investment has led to "crowding in" of private sector investment by making it more profitable and generating demand for it. The idea is based on the assumption that more resources are generated (and they are not fixed) when the public sector invests in the economy. It is tautological to say that if the share of the public sector in total investment rises, then that the share of the private sector would fall since the share of the two has to add up to one. If the private sector investments were to fall when public sector investment rises then one could deduce that there is "crowding out", but there is no such evidence.

"Crowding in" draws support from the externality argument that public sector creates the infrastructure which increases the profitability of the private investment and thereby leads to more private investment. In the Indian context it has been seen that the public sector has provided cheap infrastructure to the economy and thereby enhanced the profitability of the private sector. Critics argue that the public sector is characterised by high levels of inefficiency and therefore, if expenditure is by the private sector and not in the public sector then the resources would be better utilised and that would lead to higher growth. The data indicates that investment in both the public and the private sectors has gone up resulting in higher growth. Kalecki (1971) points out that the private sector does not like the public sector because it checks private monopolies and limits the market size for them. That is at the heart of the "crowding out" argument.

Graph 5.1

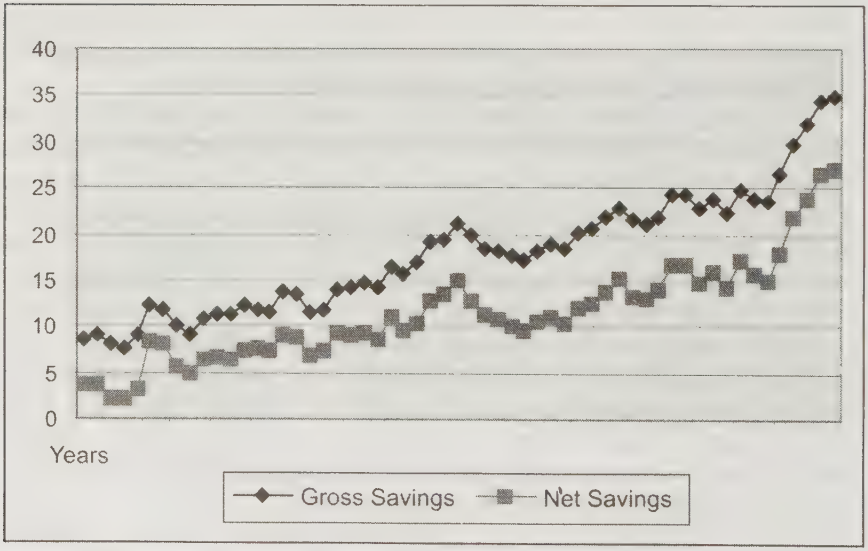
Capital formation (%) 1950 to 2007



(Source: RBI Handbook of Statistics on Indian Economy)

Graph 5.2:

Savings rate (%) 1950 to 2007



(Source: RBI Handbook of Statistics on Indian Economy)

The sectoral position of investment and savings show that the household sector in India has played a large role in providing savings both to the public sector and the private corporate sector. In fact, there have been periods in which savings by the public sector have been low or negative and critics argue that this is due to corruption and waste in the public sector and the private sector could have done better. But these two malaise afflict the private sector also (Kumar, 1999). The issue of whether the public sector or the private sector should have a claim on the household savings has to be determined by policy and cannot be based on a simple either / or argument, especially if it is not a zero sum game. Chakravarty (1988) has argued that the high savings of the household sector are based on growing corruption and the leakage of savings of the public sector into that sector.

Fiscal policies play an important role in promoting investment and savings directly and they themselves impact growth. So, these aspects relating to government intervention in the economy need to be taken into account and are discussed in the next section.

2.1 Fiscal Aspects of Growth

Fiscal policies have a substantial effect on economic growth. This happens both directly and indirectly. The budget can directly pump in demand into the economy and create the environment for development and growth through various policy instruments. Outside the budget, the government also affects the economy through policy announcements that cannot be measured in monetary terms, such as agriculture policy or S & T policy or interest rate policy. While all levels of government spend around 30 per cent of GDP, including transfers, and this affects the economy directly, if the impact of other policies is also taken into account it can be safely said that in the Indian economy the government has an overwhelming influence and affects the behaviour of the rest of the economy even if it does not directly have a bearing on some parts of the economy.

2.1.1 Neo-Classical View of Government Intervention and Notion of "Minimum" Government

It would be safe to say that governments are the major determinants of growth in a modern day economy. Over time, economies have become more and more complex and have required greater intervention by the government (Kumar, 1999). Individuals perform many more tasks as a collective rather than as family or individuals. In India, the developmental tasks assigned to government have grown over time as the citizens are neither able to affect the macro environment nor cope with the rapid changes going on around

them. Further, there has been widespread market failure of various kinds, which has required government intervention and this is true all over the world, including the advanced capitalist countries. In fact, if intervention is measured by government expenditure as a fraction of GDP, in many of the European nations taken to be the most civilised, this figure in 1990-91 was as high as 60 per cent.

There has been acceptance of an increasing role of the government (assigned by society or through legislation) to perform the collective tasks of society that individuals are unable to perform or can do only ineffectively. The neo-liberal paradigm has opposed this rising government intervention and suggested that big government is bad. They argue for minimum government and greater individual initiative and, therefore, suggest "retreat of the state" (Chapters III and IV). They are partly correct that bureaucracies are inefficient and corrupt. However, they are unable to show that the "no government" situation is better than the situation with a corrupt and inefficient government (*see* Kumar, 1995). They argue that corruption and inefficiency are parts of any bureaucracy, so these cannot be got rid of and the baby must be thrown along with the bath water. To them, inequality and the inefficiencies associated with market failure are entirely acceptable.

It is not the number of rules in society that matters but whether they are voluntarily followed or flouted. In a society where the individual is committed to the group, rules would tend to be voluntarily followed while in a society where the individual is alienated, rules would be largely violated. The bureaucracy set up to govern reacts to violations of rules by trying to plug the loopholes so that laws tend to get more complex. The alienated individuals then find newer ways to flout them and this vicious cycle continues. Governments get more complex and big without the problem being resolved. Under such circumstances, on a narrow reading, the demand for the retreat of the state seems to make sense. However, as California has found to its cost (in 1978, it passed a law that downsized the government) that after a while infrastructure begins to collapse and social problems grow. Thus, a broader understanding would be that alienation has to be ended so that individuals voluntarily follow the required rules of social functioning; it is not that society and its functioning have to be curtailed.

The solution is not less government but effective governance. Where government is not required, it should not be there (so "minimum" government) but where it is needed by the collective it should intervene but this should be effective. However, successful intervention requires active citizens' participation and accountability of government actions. So, what is needed is not less government but a government that has to govern the least because the citizens are committed to automatically following the social norms and rules (Kumar, 2007a). For instance, if individuals in society

throw garbage all around and not in the designated places, far more cleaning is required than if everyone followed proper garbage disposal. This requires a commitment to the social norm of cleanliness. No amount of lecturing can solve the problem unless citizens are committed. Local government agencies required to collect garbage can also not be eliminated because people are not voluntarily disposing of the garbage correctly — the situation can then only worsen. Thus, "minimum" has to be defined in the existing social context and not as a general notion (an ideologically dictated one) for dismantling government.

Similarly, if the citizens saw that their money is being properly used by the government and consequently paid the taxes honestly then a far smaller bureaucracy would be required (Kumar, 1999). Even a large but corrupt bureaucracy cannot solve the problem. So, the problem needs to be understood at its roots. Taxes are needed to carry on the collective activities of society and the question is how to get individuals in society to accept that their doing so is worthwhile for them and for the wider good, in other words, how to end their alienation and get their commitment back? This is not just an economic issue but more critically a social and political problem. In fact, economists basing their analysis on the idea that society consists of rational profit maximising individuals get limited to talking of incentives and punishment as a way of tackling social problems — systemic or individual — completely ignoring the fallacy of composition, among other factors. Thus, they have not been able to resolve the problem, which continues to grow in spite of the efforts.

In the current neo-classical dispensation, for ideological reasons a false dichotomy is created between the state and the market. But can there be a market without a state and further even neo-classicals accept that the markets not only fail but that the world is "second-best" where if one market fails then all markets fail (Tresch, 1981). In the "first-best" situation where failure in one market does not affect the others, the government can correct each market individually but this is only a hypothetical case and not the real one and hence not applicable. Thus, even neo-classical theory suggests that both state and market are needed for efficient functioning of society and there is no escaping that. The question is how much of each? This can only be resolved on the basis of what society needs and not in the abstract. It has to be based on a social consensus and not on what vested interests need.

2.1.2 Government Intervention: Macro View and Fiscal Policy Regime

Given the complexity of society and the roles that government is called upon to play, it has to use a variety of policy instruments. It has been argued in Kumar (1988) and Kumar (1999) that fiscal policies work through what is called the "fiscal policy regime". This term is defined to stand for the collec-

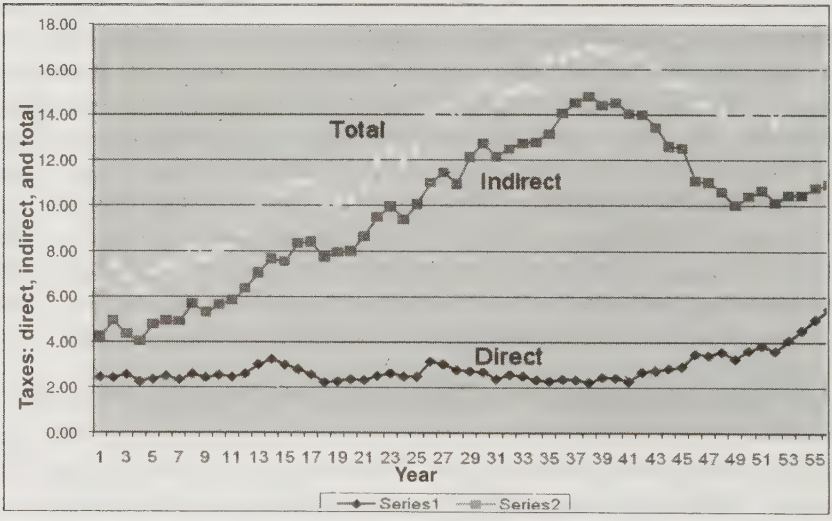
tivity of fiscal policies of the government, namely the direct tax policies, indirect tax policies, the expenditure policies, the investment policies, the borrowing policies, the interest rate policies, the administered prices policies and the deficits in the budget. In India, all these policy instruments are strongly affected by the black economy so that it is the key variable for determining the fiscal policy regime.

The implication of the above is that the various policy instruments mentioned above do not act individually but all together or in groups because they are mutually dependent. Unfortunately, in most analysis, these interlinkages amongst the variables are ignored. Variables are dealt with individually or in groups of two. It is shown in Kumar (1988) that the impact of the fiscal variables on the macroeconomic variables — output and price level — works through the National Income identity which encompasses the fiscal policy regime.

At the time of independence direct and indirect taxes were roughly equal in magnitude (Tables 5.3 and 5.4). However, the tables show that after independence very quickly indirect taxes began to dominate. It is well known that indirect taxes are stagflationary while direct taxes are output enhancing (Kalecki, 1971). Thus, as the policies shifted in favour of indirect taxes, the stagflationary component had a growing impact on the economy potentially lowering growth and raising the rate of inflation. The share of indirect taxes in the total tax collection reached a peak in 1991, at 87% (*see* Table 5.4 and Graph 5.3).

Graph 5.3

Tax GDP Percent 1950-2006



(Source: Indian Public Finance Statistics, 2007-08)

Table 5.3

Tax Revenue of Centre and the States: 1950-51 to 2007-2008

(₹ Crore)

Year	Total tax revenue (All India) (A+B)			Central taxes (gross) (A)			States' share in central taxes (B)			Annual increase of Total Tax Rev.	Tax to GDP ratio
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total	(%)	(%)
1	2	3	4	5	6	7	8	9	10	11	12
1950-51	231	396	627	176	229	405	48		48	-	6.31
1951-52	244	495	739	190	322	512	53		53	17.86	6.99
1952-53	252	426	678	186	259	445	56	17	73	-8.25	6.54
1953-54	242	430	672	166	254	420	58	15	73	-0.88	5.96
1954-55	240	480	720	161	294	455	57	14	71	7.14	6.74
1955-56	259	509	768	171	314	485	57	17	74	6.67	7.06
1956-57	288	602	890	194	376	570	51	27	78	15.89	6.87
1957-58	327	718	1,045	230	462	692	76	40	116	17.42	7.83
1958-59	344	745	1,089	238	463	701	75	73	148	4.21	7.32
1959-60	378	838	1,216	269	525	794	79	73	152	11.66	7.76
1960-61	402	948	1,350	292	603	895	90	75	165	11.02	7.86
1961-62	449	1,094	1,543	337	717	1,054	98	81	179	14.3	8.48
1962-63	560	1,305	1,865	423	862	1,285	99	125	224	20.87	9.53
1963-64	693	1,632	2,325	550	1,084	1,634	124	136	260	24.66	10.34
1964-65	743	1,856	2,599	600	1,221	1,821	131	127	258	11.78	9.91
1965-66	734	2,188	2,922	598	1,463	2,061	130	146	276	12.43	10.56
1966-67	767	2,494	3,261	657	1,650	2,307	142	231	373	11.6	10.42
1967-68	780	2,676	3,456	655	1,698	2,353	181	235	416	5.98	9.43

(Contd. . .)

Table 5.3 *(. . .contd)*

Year	Total tax revenue (All India) (A+B)			Central taxes (gross) (A)			States' share in central taxes (B)			Annual increase of Total Tax Rev.	Tax to GDP ratio
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total	(%)	(%)
1	2	3	4	5	6	7	8	9	10	11	12
1968-69	840	2,919	3,759	698	1,812	2,510	200	291	491	8.77	9.68
1969-70	963	3,237	4,200	826	1,996	2,822	300	321	621	11.73	9.82
1970-71	1,009	3,743	4,752	869	2,337	3,206	365	390	755	13.14	10.4
1971-72	1,171	4,404	5,575	1,047	2,826	3,873	470	475	945	17.32	11.39
1972-73	1,346	5,090	6,436	1,233	3,272	4,505	495	567	1,062	15.44	11.93
1973-74	1,552	5,837	7,389	1,375	3,695	5,070	539	631	1,170	14.81	11.26
1974-75	1,834	7,389	9,223	1,650	4,672	6,322	522	703	1,225	24.82	11.9
1975-76	2,493	8,689	11,182	2,205	5,404	7,609	742	857	1,599	21.24	13.43
1976-77	2,585	9,747	12,332	2,328	5,943	8,271	662	1,028	1,690	10.28	13.74
1977-78	2,680	10,557	13,237	2,405	6,453	8,858	685	1,113	1,798	7.34	13.03
1978-79	2,851	12,677	15,528	2,528	7,997	10,525	717	1,240	1,957	17.31	14.1
1979-80	3,096	14,587	17,683	2,818	9,156	11,974	876	2,530	3,406	13.88	14.63
1980-81	3,268	16,576	19,844	2,997	10,182	13,179	1,014	2,777	3,791	12.22	13.8
1981-82	4,133	20,009	24,142	3,786	12,061	15,847	1,034	3,240	4,274	21.66	14.32
1982-83	4,492	22,750	27,242	4,139	13,557	17,696	1,148	3,492	4,640	12.84	14.47
1983-84	4,907	26,618	31,525	4,498	16,223	20,721	1,188	4,057	5,245	15.72	14.36
1984-85	5,330	30,484	35,814	4,798	18,673	23,471	1,252	4,525	5,777	13.6	14.59
1985-86	6,252	37,015	43,267	5,620	23,050	28,670	1,865	5,625	7,490	20.81	15.56
1986-87	6,889	42,650	49,539	6,236	26,602	32,838	2,170	6,306	8,476	14.5	15.92
1987-88	7,483	49,493	56,976	6,752	30,913	37,665	2,595	7,002	9,597	15.01	16.08
1988-89	9,758	57,168	66,926	8,830	35,644	44,474	2,750	7,919	10,669	17.46	15.88

(Contd. . .)

Table 5.3 *(. . .contd)*

Year	Total tax revenue (All India) (A+B)			Central taxes (gross) (A)			States' share in central taxes (B)			Annual increase of Total Tax Rev.	Tax to GDP ratio
	Direct	Indirect	Total	Direct	Indirect	Total	Direct	Indirect	Total	(%)	(%)
1	2	3	4	5	6	7	8	9	10	11	12
1989-90	11,165	66,528	77,693	10,003	41,633	51,636	3,922	9,310	13,232	16.09	15.98
1990-91	12,260	75,462	87,722	11,030	46,547	57,577	4,121	10,414	14,535	12.91	15.43
1991-92	16,657	86,541	1,03,198	15,353	52,008	67,361	5,104	12,093	17,197	17.64	15.8
1992-93	19,387	94,779	1,14,166	18,140	56,496	74,636	6,057	14,465	20,522	10.63	15.26
1993-94	21,713	1,00,248	1,21,961	20,299	55,443	75,742	7,767	14,473	22,240	6.83	14.19
1994-95	28,878	1,18,971	1,47,849	26,973	65,324	92,297	8,560	16,283	24,843	21.23	14.6
1995-96	35,777	1,39,482	1,75,259	33,564	77,660	1,11,224	11,274	18,011	29,285	18.54	14.75
1996-97	41,061	1,59,995	2,01,056	38,898	90,864	1,29,762	13,516	21,545	35,061	14.72	14.69
1997-98	50,538	1,70,121	2,20,659	48,282	90,938	1,39,220	21,102	22,446	43,548	9.75	14.49
1998-99	49,119	1,83,898	2,33,017	46,601	97,196	1,43,797	14,480	24,665	39,145	5.6	13.38
1999-2000	60,864	2,13,719	2,74,583	57,960	1,13,792	1,71,752	16,523	26,958	43,481	17.84	14.07
2000-01	71,762	2,33,558	3,05,322	68,305	1,20,298	1,88,605	18,655	33,290	51,945	11.19	14.52
2001-02	73,109	2,41,426	3,14,535	69,198	1,17,862	1,87,060	21,492	31,906	53,398	3.02	13.8
2002-03	87,365	2,68,912	3,56,277	83,363	1,32,542	2,15,905	21,473	34,649	56,122	13.27	14.51
2003-04	1,09,546	3,04,538	4,14,084	1,05,091	1,49,257	2,54,348	28,492	38,874	67,366	16.23	15.03
2004-05	1,37,093	3,57,277	4,94,370	1,32,183	1,72,774	3,04,957	36,828	43,331	80,159	19.39	15.7
2005-06	1,67,635	4,20,053	5,87,688	1,62,337	2,03,814	3,66,151	44,511	51,376	95,887	18.88	16.41
2006-07(R.E.)	2,30,973	5,04,500	7,35,473	2,24,975	2,42,873	4,67,848	NA	NA	1,21,877	25.15	17.74
2007-08(B.E.)	2,68,778	5,86,035	8,54,813	2,62,348	2,85,774	5,48,122	71,124	73,126	1,44,250	16.23	18.14

(Source: Indian Public Finance Statistics, 2007-08.)

Table 5.4

Taxes as Per Cent of Total Tax Collection and GDP

Year	*IT / T*	*DT / T*	*DT*	*IT*	*Total*
1950-51	63.23	36.93	2.33	3.99	6.31
1951-52	66.95	33.05	2.31	4.68	6.99
1952-53	62.84	37.16	2.43	4.11	6.54
1953-54	63.93	36.07	2.15	3.81	5.96
1954-55	66.77	33.38	2.25	4.5	6.74
1955-56	66.29	33.71	2.38	4.68	7.06
1956-57	67.69	32.31	2.22	4.65	6.87
1957-58	68.71	31.29	2.45	5.38	7.83
1958-59	68.44	31.56	2.31	5.01	7.32
1959-60	68.94	31.06	2.41	5.35	7.76
1960-61	70.23	29.77	2.34	5.52	7.86
1961-62	70.87	29.13	2.47	6.01	8.48
1962-63	69.99	30.01	2.86	6.67	9.53
1963-64	70.21	29.79	3.08	7.26	10.34
1964-65	71.44	28.56	2.83	7.08	9.91
1965-66	74.91	25.09	2.65	7.91	10.56
1966-67	76.49	23.51	2.45	7.97	10.42
1967-68	77.41	22.59	2.13	7.3	9.43
1968-69	77.69	22.31	2.16	7.52	9.68
1969-70	77.09	22.91	2.25	7.57	9.82
1970-71	78.75	21.25	2.21	8.19	10.4
1971-72	79.02	20.98	2.39	9	11.39
1972-73	79.13	20.96	2.5	9.44	11.93
1973-74	79.04	21.05	2.37	8.9	11.26
1974-75	80.17	19.92	2.37	9.54	11.9
1975-76	77.66	22.26	2.99	10.43	13.43
1976-77	79.04	20.96	2.88	10.86	13.74
1977-78	79.74	20.26	2.64	10.39	13.03
1978-79	81.63	18.37	2.59	11.51	14.1
1979-80	82.50	17.50	2.56	12.07	14.63
1980-81	83.55	16.45	2.27	11.53	13.8
1981-82	82.89	17.11	2.45	11.87	14.32
1982-83	83.48	16.52	2.39	12.08	14.47
1983-84	84.47	15.60	2.24	12.13	14.36
1984-85	85.13	14.87	2.17	12.42	14.59
1985-86	85.60	14.46	2.25	13.32	15.56
1986-87	86.12	13.88	2.21	13.71	15.92
1987-88	86.88	13.12	2.11	13.97	16.08
1988-89	85.39	14.55	2.31	13.56	15.88
1989-90	85.61	14.39	2.3	13.68	15.98
1990-91	86.00	14.00	2.16	13.27	15.43
1991-92	83.86	16.14	2.55	13.25	15.8

(Contd. . .)

Table 5.4 *(. . . contd)*

Year	*IT / T*	*DT / T*	*DT*	*IT*	*Total*
1992-93	82.96	16.97	2.59	12.66	15.26
1993-94	82.24	17.83	2.53	11.67	14.19
1994-95	80.48	19.52	2.85	11.75	14.6
1995-96	79.59	20.41	3.01	11.74	14.75
1996-97	79.58	20.42	3	11.69	14.69
1997-98	77.09	22.91	3.32	11.17	14.49
1998-99	78.92	21.08	2.82	10.56	13.38
1999-2000	77.83	22.17	3.12	10.95	14.07
2000-01	76.52	23.48	3.41	11.11	14.52
2001-02	76.74	23.26	3.21	10.59	13.8
2002-03	75.53	24.53	3.56	10.96	14.51
2003-04	73.59	26.48	3.98	11.06	15.03
2004-05	72.23	27.71	4.35	11.34	15.7
2005-06	71.48	28.52	4.68	11.73	16.41
2006-07 (R.E.)	68.60	31.40	5.57	12.17	17.74
2007-08 (B.E.)	68.52	31.42	5.7	12.43	18.14

(Source: Indian Public Finance Statistics, 2007-08.)

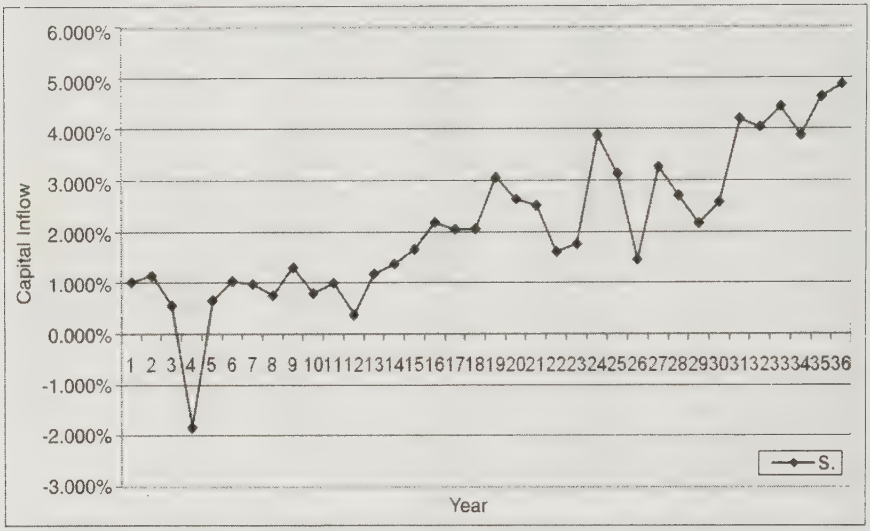
Note: T stands for Total Taxes Collected, IT stands for Indirect Taxes and DT stands for Direct Taxes.

While higher taxes and increased expenditure result in a stimulus to growth (*via* balanced budget multiplier) there is a larger effect if more is spent on the social sectors and other labour intensive sectors. If the budget is not balanced, an increase in the primary deficit plays a strong expansionary role. In India as the tax-GDP ratio rose (Graph 5.4) till 1990-91, a stimulus was provided to the economy. In the 1980s, the primary deficit rose and added to the stimulus for growth so that the growth rate of the economy increased (Kumar, 1999). In the 1990s, the conservative fiscal stance resulted in the decline of both the tax-GDP ratio and the primary deficit so that the stimulus weakened.

The black economy weakens the stimulus to the economy in a counter-intuitive manner because it prevents the tax-GDP ratio from rising, lowers the rate of investment and reduces the value of the multiplier in the economy (Kumar, 2005b). Thus, in spite of the rising government intervention in the economy, which should have stimulated growth, the rapidly growing black economy creates a larger deficiency of demand so that the economy continues to suffer from a deficiency of demand and the economy does not grow faster.

Graph 5.4

Capital Inflow per cent of GDP 1970 to 2006



(Source: RBI Handbook of Statistics on Indian Economy)

The available literature suggests that capital expenditures in the budget result in a stimulus to the economy while consumption expenditures are wasteful and lower the growth potential of the economy. This is true in a long-term sense since the former creates assets, which lead to increases in productivity while the latter does not. However, in the short-run, it is the expenditures by the government (whether capital or current) that matter both in the sense of balanced budget and the enlargement of the primary deficit. Kumar (1999) shows that the rise in the fiscal deficit based on rising transfers whether as subsidies or interest payments does not result in a stimulus to the economy but leads to a debt trap. Thus, it is better to raise direct taxes and spend rather than depend on the enlargement of the fiscal deficit. However, if the well-off sections resorting to the black economy do not pay more direct taxes then it is better to resort to the primary deficit to enlarge the stimulus rather than not do so on grounds of fiscal prudence. This is also necessary to give the much-needed support to the marginalised sections of society.

That a fiscal stimulus keeps growth going has been proven during the global financial crisis (beginning 2007) with strong interventions by the governments all over the world. Up to 2007, governments had a conservative fiscal stance of keeping the budgets balanced but after that the fiscal deficits went through the roof and prevented the world economy from sliding into deeper recession (ASG, 2009). In the US and India the fiscal deficit grew from 3% of GDP to 12% of GDP. In India, the applicability of the much-touted Fiscal Responsibility and Budget Management (FRBM) Act was held

in abeyance even though till then it was held as inviolable. As one economist said, till 2007, economists could not afford to be seen to be Keynesians while after that few could afford not to be seen as Keynesians.

2.2 Macroeconomic Aspects of the Indian Economy, 1950-1991

Due to the influence of the national movement the national leadership was convinced that the state has to play a large role in the nation's development. As argued earlier, there was a democratising influence of the struggle for independence even though there was the desire of the elite to modernise. Thus, both for the elimination of poverty and illiteracy as well as to modernise, the state was given prime responsibility for economic development. The business community agreed to this in its own interest.

Growth and distribution were both focus of policy. Sensitivity to these concerns was such that when the failure of the presumed socialist policies of the Congress resulting in growth of monopolies and increasing disparities was raised in Parliament, there was consternation and immediate response from the ruling party. The Monopolies Commission was set up and effort at poverty removal was redoubled.

The state mobilised resources for development and invested in the creation of a large public sector to take care of both physical and social infrastructure and industries that the private sector could not set up immediately. The rate of savings and the share of tax in GDP went up (*see* Table 3.6).

Even though, to begin with, the economy was not capitalist with large parts operating under pre-capitalist modes, government and economists treated it as capitalist. Modern sectors were expanded both in the public and the private sectors and that led to the spread of capitalism in the economy. The pre-capitalist parts of the economy — agriculture and production in tiny and cottage sectors — were drawn into the capitalist mode over time. This was facilitated by the government gaining control over more and more resources and the spread of formal banking, controlled by the large scale sector owned by capitalists. Though the public sector was formally under government control and supposed to generate resources for reinvestment in the public sector and, therefore, akin to a socialised sector, this was not quite the way things turned out over time (*see* Section 5 later).

The public sector due to inefficiencies, corruption and other problems operated at very small overall profits and drew on the budgetary resources and the savings of the household sector. In a sense it enlarged the private sector's profits in white and due to corruption it led to the black profits of the corrupt businesses, corrupt politicians and the corrupt executive (*see* Chapter VIII). As such, even though it was supposed to be a part of the socialistic policies of the country, it worked to support capitalist development.

Following the domination of the Keynesian policies the world over after World War-II, Indian policy makers also used these policies of demand management. Investment and balanced budget multiplier were used to boost demand and growth. Since India was running a current account deficit, this was leading to a leakage of demand and reduction in growth as well as BOP problems. Thus, the government protected the home market and checked imports. Foreign capital flows through aid were used to keep the BOP in balance.

The demand management policies to spur growth repeatedly faced challenges since the early 1960s due to wars, droughts, plan holidays, inflationary bouts and growing fiscal crisis followed finally by the BOP crisis in the late 1980s. A critical aspect of the increasing failure of these policies was the growing black economy, which opened out the economy (through smuggling and flight of capital) while policy makers were treating it as a closed economy. It was increasingly circumscribing the government's capacity to raise resources and was leading to policy failure both because of demand leakage and non-achievement of targets.

The wrong policies based on trickle down and modernisation led to the rise in incremental capital-output ratio so that in spite of the rising levels of investment and savings, growth and employment generation did not pick up substantially to overcome poverty through trickle down but it created substantial increase in disparities and other related problems (discussed above). The growing black economy aggravated these tendencies through the primitive accumulation of capital.

Since policies were not seen to work, government intervention got discredited. Pressure for the retreat of the state mounted since the mid-1970s with the imposition of Emergency. A kind of liberalisation began then which gathered speed in the 1980s. The baby was sought to be thrown out with the bath water and that suited the needs of the growing capitalist classes. This was eventually accomplished in 1991 with NEP. These trends were reinforced by the international trends (*see* Chapter III) of changes in China, USSR and the emergence of Reaganism and Thatcherism in the West and the changed stance of the advanced capitalist countries in the various international fora such as the GATT, IMF and World Bank.

In brief, the Indian ruling elite had initiated a path of development that appeared to be an independent path but was actually not because of its Keynesian roots and dependence on trickle down (both of which were borrowed). Since it was not based on the needs of the economy and the rulers indulged in primitive accumulation of capital there was widespread policy failure. The macro framework used lurched from crisis to crisis as the elite ruling classes themselves undermined it.

2.3 Macroeconomic Aspects of the Indian Economy, 1991 to the Present

As suggested in the preceding section, macro policies were failing and international pressure from the advanced countries was growing dramatically right up to 1991. A "Washington Consensus" had emerged in the 1980s as to how the world economy was to be run (*see* Chapter IV). It was based on free market capitalist framework. The threat of a socialist alternative was fading and completely disappeared with the demise of the Soviet Block in 1990.

In India, like in the West and almost the entire world where monetarism was ruling, neo-liberal policies were rapidly introduced. Keynesianism and socialistic policies based on state intervention and demand management policies were made to stand on their head and after 1991, India was no exception. It did not matter that these policies were not relevant to India because they would lead to greater disparities and marginalisation of social concerns and were based on "growth at any cost" with all costs borne by the marginals and the environment. That these policies would lead to even greater problems than the earlier ones did not matter since the old policies had to be changed. What kind of change was needed did not matter because the new policies suited the elite rulers.

"Supply side policies" supplanted the "demand side policies". Concessions in taxes and other sops were given to capital to encourage it to invest since now it was to be the leading sector propelling growth. Public sector was to be privatised in stages via disinvestment and strategic sales. Consequently, national income was allowed to massively shift in favour of the corporate sector (Kumar, 2007b).

Under the neo liberal framework since the global market is the biggest and the most "efficient", the structure of the economy has to be adjusted to the global capitalist economy (referred to as Structural Adjustment Policies of the World Bank). Since the Indian economy is a tiny fraction (GDP share 1.5 % and Investment share 1.7% in 1999) of the global economy (*see* Table 5.5) it has to adjust to the latter. Its own needs have to bend to those of others. This is also the reason that the "Washington Consensus" has involved policies that are "one size fits all", which has drawn criticism, but that is in the logic of the situation. Since these policies do not even look at distribution of incomes in the economy, either nationally or globally, they have further marginalised the marginal and caused inequity to rise globally.

Table 5.5

Tax Buoyancy for India

Tax Buoyancy (1950-51 to 2005-06)

	Dependent Variable	*Independent Variable*	*Coefficient*
1.	In Direct Taxes (Centre)	NDP_{FC}	1.136
		Non-agri NDP_{FC}	1.055
		Org Non-agri NDP	0.936
2.	In Indirect Taxes (Centre)	NDP_{FC}	1.155
		Non-agri NDP_{FC}	1.074
		Org Non-agri NDP	1.028
3.	In Direct Taxes (States)	NDP_{FC}	0.746
		Non-agri NDP_{FC}	0.694
		Org Non-agri NDP	0.617
4.	In Indirect Taxes (States)	NDP_{FC}	1.243
		Non-agri NDP_{FC}	1.155
		Org Non-agri NDP	1.027

Tax Buoyancy (1980-81 to 2005-06)

	Dependent Variable	*Independent Variable*	*Coefficient*
1.	In Direct Taxes (Centre)	NDP_{FC}	1.23
		Non-agri NDP_{FC}	1.152
		Org Non-agri NDP	1.119
		Org property income	0.972
2.	In Indirect Taxes (Centre)	NDP_{FC}	0.869
		Non-agri NDP_{FC}	0.813
		Org Non-agri NDP	0.791
		Org property income	0.683
3.	In Direct Taxes (States)	NDP_{FC}	0.892
		Non-agri NDP_{FC}	0.836
		Org Non-agri NDP	0.813
		Org property income	0.703
4.	In Indirect Taxes (States)	NDP_{FC}	1.06
		Non-agri NDP_{FC}	0.993
		Org Non-agri NDP	0.965
		Org property income	0.836

(Source: Computed using data from the following sources:

1. Central Statistical Organisation (2007): National Accounts Statistics — Back Series 1950-51 to 1999-2000.
2. Central Statistical Organisation (2008): National Accounts Statistics — Factor Incomes 1980-81 to 1999-2000.
3. Central Statistical Organisation (2009): National Accounts Statistics 2009.
4. Ministry of Finance (2008): Indian Public Finance Statistics 2007-08.)

Macro policies are to be tailored to suit the needs of global capital, which has become highly mobile and by playing one nation against the other it is able to extract concessions. Thus, industrial policies, financial policies, fiscal policies and so on have been adjusted since 1991 to the needs of global capital. Indian big business has also taken advantage of these concessions. Non-economic areas such as education, language, entertainment and culture have also had to adjust to the needs of the global markets to cater to them.

The neo-liberal policies have resulted in the domination of finance in the world (Chapter III, Section 6.5.1). Under these policies, demand deficiency is not countered via government intervention but by stimulating consumerism of the affluent sections. The US economy became the engine of growth with its savings propensity falling by 2005 to almost zero (ASG, 2009). The financial markets have expanded dramatically with growing concentration of resources in fewer hands and resulting in the creation of bubbles. The rising financial wealth led to the wealth effect and growing consumption. It is only in 2007 that the bubble burst leading to the deepest collapse of the world economy since the depression of the 1930s. India has been no exception to these trends with growing clout of the corporate sector and the world of finance. They have influenced policies like never before and marginalised the rest. Greed has been placed on a new high pedestal with making money by any means becoming legitimate (*see* Chapter VII).

Were these macro and micro policies an alternative to the policies prevailing prior to 1991? It would seem so from the point of view of the elite sections but not for the rest who have been passive victims of the consequences of NEP. The logic of individuals being responsible for their own problems (*see* Chapter III) relieved the state and society from responsibility towards the individual. Now they were expected to go to the market for solving all their problems. Since the focus is on separate markets and micro policies the macroeconomic framework weakened and simply became an aggregation of the individual components rather than guiding overall policies.

The Indian ruling elite bankrupted by the failure of its post-independence policies gave up any pretence of independence and adopted the neo-liberal policies, which suited it by removing any restraint on its profit making and consumption, which have enabled it to link up with the international elite. Its own narrow interest is seen as the national interest with the marginals counting for little. Growing alienation and social tensions are seen as law and order problems (and not political issues) to be taken care of through more authoritarian and undemocratic means.

3. Aspects of Fiscal Policies since Independence

3.1 General Trends in Fiscal Policies

Table 5.4 shows that India's tax-GDP ratio continuously rose from 6.3 per cent in 1950-51 to around 16 per cent in 1989-90. Thereafter, it fell to a low of 13.4 per cent by 1998-99 and then again rose to reach 17.74 per cent by 2006-07. The rise is a reflection of the growing tasks that the government had to perform. The government had enough of its own resources to fulfil its governance tasks so that it had a surplus in the revenue account, which could be ploughed into development activities. Borrowings were resorted to in order to supplement the resources for development. The fiscal deficit, which captures the borrowings showed a rise from 6.6 per cent of GDP in 1970-71 to about 12 per cent by 1990-91 and then this fell but is now again back to about 12 per cent (Table 5.10).

There was a revenue surplus between 1950-51 and 1981-82 (Table 5.10) and this added to the budgetary resources for development. From 1982-83, this turned into a deficit so that the borrowings had to finance current expenditures and this led to a vicious cycle of more borrowings and rising interest payments and higher revenue deficits. Ultimately, it drove the budget towards a debt trap and the fiscal crisis of 1990-91.

Since the mid-1980s, because of the growing fiscal crisis of the Centre and from 1991, the limit on the fiscal deficit required by the IMF and later on due to the limits set under the FRBM, the government held back its expenditure on the social sectors which are considered to be soft, cut back (in per cent terms) funds for the public sector, transfers to the states, allocations for subsidies and capital expenditures. Thus, the deterioration in the fiscal situation of the central government translated into a difficult fiscal situation for the states and for the public sector. So even though the fiscal deficit of the Centre declined, the deficit of the states and the public sector increased.

The public sector has contributed resources towards the development task by generating a surplus and by contributing to the tax kitty. However, after 1991, as the budgetary position tightened, it was asked to contribute more to the plan expenditure under IEBR (Internal and Extra Budgetary Resources). For this purpose, it had to raise the prices it charged and that added to the inflationary pressures. The fiscal crisis of the Centre translated into the fiscal crisis in the budgets of the States, adversely affecting expenditure on social sectors like education and health. Given that 80% of social sector expenditure (like on education and health) takes place through the State governments, the level of these expenditures by the government declined even during periods where the Central government raised its expenditure. This adversely affected the poor in the country. The ratio of Plan outlay to GDP rose from 2.5 per cent

in 1951-52 to around 12 per cent by end-1980s and then dropped to about 6.9 per cent by 2005-06 and has risen again (Table 3.7).

3.2 Some Theoretical Considerations Regarding Fiscal Policies

Developments discussed above suggest that the budgetary situation was headed for a crisis in the 1980s. This was the result of the inability to think holistically and use the fiscal policy regime in the analysis resulting in *ad hoc* measures and formulation of policies without reference to their impact on other fiscal variables. For instance, indirect taxes were raised rapidly without taking into account their stagflationary impact, the effect on subsidies and therefore on the revenue deficit, borrowings and interest payments. This section analyses some of the critical theoretical issues involved in fiscal policy formulation in India.

As Table 5.4 and Graph 5.3 show India has had a low direct tax to GDP ratio. This is the result of a relatively small number of direct tax payers (around 1% or less of the population till 1997 now the numbers have risen but effective tax payers in per cent terms remains around 1%). This is the result of the large number of concessions and deductions offered in these taxes and the high exemption limit in relation to the per capita income. Presently, direct tax begins to be applicable at roughly 300 per cent of the country's per capita income and then there are the concessions to be availed of so that for a large number of people these taxes are applicable at very high multiple of the per capita income. In contrast, in most of the countries in the world direct taxation begins roughly at an income around the per capita income or in some advanced countries even at less than 50 per cent of the per capita income. While the above presents the legal situation, the real culprit has been the presence of the very large black economy in India, which reduces the income falling in the tax net so that many high income earners do not fall in the tax net at all (Kumar, 1999 and Chapter VIII). Thus, in India while currently about 3 per cent of the population falls in the direct tax net in most other countries more than 50 per cent of the population falls in the direct tax net.

In India, because direct tax collection has been abysmally low, the government has depended on indirect taxation for raising revenue leading to the problems of high prices faced by the exporters and the consumers. To be internationally competitive, exporters have demanded and got refund of taxes paid and also subsidies. The poor for their consumption also needed subsidies so that the share of subsidies in budgetary expenditures has been high.

It has been argued in Kumar (1999) that in spite of very low wages, India's cost of production has been very high creating problems for exports. Similarly, to encourage agricultural production, subsidies are given on fertil-

isers and other such inputs to compensate the farmers for the adverse income terms of trade they have to face. Subsidy on food and other essentials (textiles and energy) is needed due to their relatively higher prices compared to the wages of the workers. It is not that there are indirect taxes on, say, food and textile for the poor but when indirect taxes are raised the prices of these goods also rise due to the cascading effects of these taxes (*see* later in this section). In other words, India has had a high subsidy regime because of the high indirect tax levied in the country (and poverty).

The public sector prices are determined by policies to a large or small extent so they are referred to as administered prices. Till 1991, government policy had been to keep these prices low so that inflation can be kept under control. However, this meant losses or low profits for the public sector and the accusation that the public sector is inefficient. Instead of giving money to the public sector to keep prices low, the government allowed the public sector to incur losses. In turn, this led to the argument for the privatisation of the public sector so that it could become profitable. This argument missed the point that it was government's policies, which kept the public sector in the red. Of course, there are inefficiencies in the public sector but in spite of that it could have earned profits if there were no government restrictions on prices and other political and strategic considerations.

Unit Trust of India (UTI) is an example of how the government used the public sector to serve its policy purpose. In the post-1991 phase, the success of policies has been measured by the rise in the stock market indices. To achieve this, the government told the financial institutions, including UTI to purchase in the market even if it meant going against the tide. Thus, UTI entered into unprofitable deals and its decision makers possibly corrupted by proprietors, bought the shares of weak companies, and this led to its eventual collapse. But the primary blame would have to fall on the government trying to coerce the financial institutions to show success for its policies.

3.2.1 Regressive Tax System

The share of indirect taxes in total taxes fell after 1991. Further, the direct tax-GDP ratio started rising, especially after 2000-01. Thus, the tax-GDP ratio in the economy fell from its peak in 1991 up to 2000-01 and then started rising again because of the rise in the direct tax-GDP ratio. It is interesting that the periods in which direct tax-GDP ratio has increased in India, have been the periods when the savings propensity has also increased sharply.

This suggests that the rising share of direct tax in GDP is based on rising disparity in the economy, which results in greater income for the richer classes who save more and are supposed to pay more taxes. It is interesting to note that the direct taxes-GDP ratio in India remained between 2% and

3% from 1950-51 to 2000-01. This is surprising because direct taxes apply to the non-agricultural sector and to the richer class and the share of both has risen dramatically since 1951. That the share of direct taxes remained constant is not only because of the concessions in the tax rates but also because of the dramatic rise in the size of the black economy.

To increase tax collections, dependence on indirect taxes grew over time. It has been often argued that it is easier to collect indirect taxes than direct taxes because the former is to be collected from fewer entities than the latter. However, this is not correct since the number of affluent people is also not very large. In 2003-04, only 85,000 Indians declared an income of more than ' 10 lakh. Further, fudging indirect taxes is also easy since powerful industries have a battery of accountants and lawyers to help them pay as little tax as feasible. This is an ideologically-biased policy because it suits the affluent to pay less direct taxes. To mop up more revenues through indirect taxes they were levied on more and more goods, especially basic and intermediate goods whose demand is inelastic. So, over time the indirect tax net in India has become wide, including even minor items that yield little tax. This has not only complicated the tax structure but also made it easier to evade taxes and make the tax structure regressive.

India's greater dependence on indirect taxes than on direct taxes had repercussions for the progressivity of the country's tax regime and on who bears how much of the burden. Till 1997-98, less than 1% of India's population paid direct taxes. After that, due to the operation of the one-in-five and one-in-six schemes, the number of tax payers has increased to about 3% of the population. But out of this about 2% either pay no tax or very little tax so that the effective number of tax payees remains around 1% of the population. It means that 97% are considered too poor to be in the direct tax net. However, this 97% has to pay a substantial amount of indirect taxes.

Income tax has been mostly regressive in spite of the progressive structure because of the large number of concessions and deductions to the propertied class. The marginal highest rate is reached very quickly at about twenty times the per capita income and then the tax rate is flat. Thus, over most of the range over which the rich pay taxes, the rate is flat. The average rate rises up to a point and then falls due to the concessions on property incomes. Thus, at high incomes, income tax is seemingly flat but in reality it is regressive with the rich paying lower and lower average tax rate.

Indirect taxes are regressive when measured with respect to income (as they should be) and not consumption (as is usually done). They are also regressive when calculated with respect to a common consumption basket for all citizens or if measured separately for each good in the consumption

basket. Thus, overall the indirect taxes are regressive and since they constitute the bulk of the tax collection the aggregate tax collection from individuals is regressive. In other words, there has been a lack of fairness in the taxation system.

3.2.2 Cascading Effect of Indirect Taxes and VAT

Indirect taxes are calculated in three different ways:

1. Specific duties,
2. Ad valorem duties, and
3. Value added tax (VAT).

The first is levied on the basis of quantity and not the price of the goods. Hence, it is not buoyant as prices rise. The rates have to be periodically revised with inflation. It implies a higher tax rate for cheaper goods, and therefore these tend to be regressive. The second method of calculating tax is based on a tax rate applied to the value of the goods. So, higher the value, higher is the absolute amount of tax collected and when prices rise there is an automatic tendency to collect more taxes; as a result, it is buoyant. The third method of tax calculation is unfortunately thought of as a sales tax in the current Indian scenario but that is not correct even though sales tax is calculated as VAT, but then so are the excise duties. India has progressively shifted from the first method to the second and since the 1990s more and more to the third method of computing indirect taxes.

The *ad valorem* method of tax calculation resulted in a cascading effect of indirect taxes, which effectively raises the indirect tax rates in the economy. It is argued that the use of VAT would eliminate the cascading effect of indirect taxes. Kumar (1986) shows that if the government wants to collect the same amount of revenue from VAT as it was collecting in the previous system (called revenue neutrality), then rates of taxes would have to be raised and there would be no impact on prices.

Further, VAT is difficult to calculate because it requires a lot of information to calculate it. As a result, tax evasion has gone up even though theoretically it is argued that the opposite should happen (for a more detailed discussion see Purohit, 1986 and Kumar, 2005a). In India, MODVAT (Modified VAT), a variant of VAT, was used to calculate excise duties since 1986. According to Singh (2007), tax buoyancy declined for those commodities where the tax collection was switched from *ad valorem* to MODVAT. So, with so many adverse factors, why is VAT being introduced in India? It is a result of pressure from international agencies so that the Indian tax system can be harmonised with international taxes that would help the MNCs.

3.2.3 Customs Duties and Strategic National Interest

India has had high customs duties to protect indigenous industries and this resulted in a high degree of buoyancy for this tax till 1991. After 1991, as the economy was liberalised, the custom duty collection as a share of total tax collection fell drastically and that is why the indirect tax-GDP ratio fell. High customs duties are supposed to protect indigenous industry from foreign competition ("infant industry" argument) but they also raise prices. It has also been used to keep out inessential foreign products so as to preserve foreign exchange for more essential imports. For instance, to keep gold, an unproductive investment, out of the country and save foreign exchange. It has been asked for how long should industry be protected? Why has industry not been able to catch up with the rest of the world and face competition? Lack of foreign competition is supposed to make industry less dynamic since it can survive without much innovation. It is argued that the automobile industry used the same technology that it imported in the 1950s till the mid-1980s when Maruti started production.

However, the government had decided to keep the use of automobiles down since it was considered to be a luxury good and levied high indirect taxes on it to keep its prices high. So, the market for these products was small and scale economies were not possible. Further, since there were three car manufacturers, the scale of production for each was small by world standards and did not justify fresh investments. Thus, the industry simply absorbed the technology and indigenised production but did not have the incentive to produce a new car with updated technology. However, there is another argument based on the nature of technological change.

Technology is a moving frontier. As discussed in Chapter XI, today's advanced technology is tomorrow's intermediate technology and the day after's low technology. Those who invest more and continuously in technology determine the frontier of advanced technology and others lag behind. Thus, investment is crucial and without that an industry can remain backward for a long time and thereby remain an "infant industry" for an extended period of time. Due to the disruption in industry and in S & T during the colonial period, India has not been in a position to catch up with the advanced nations which are investing far more than India.

It may be argued that a good that is not a priority can be allowed to be imported and there is little point in protecting it. If it is an input to some other product then its high price may result in higher price for that good. Thus, it is argued that inputs and machinery that are needed and cannot be produced in the country should be taxed at low rates. However, if this is done then the production of these goods may not at all be initiated in the economy. In other words, the nation has to decide which goods to protect

strategically to build a national base — which goods to allow in, to help production and which goods to discourage due to a lack of resources. In brief, customs duties should not simply be a source of revenue as was the case in the 1980s but a part of a strategic decision on which areas the country should choose to be independent and which can be allowed to be opened up without damaging the national interest.

In 1991, with the liberalisation of the external sector, under pressure from the international financial institutions, the markets had to be opened through a sharp reduction in customs duties. Due to commitments under the WTO, after 1995 the duties were brought down further. Banned items were permitted with tariffs (called tarrification). Due to pressure from the USA, 1,400 agricultural commodities were opened for trade during 2000-01. The duties have been progressively brought down — both the peak rates and the average rates — and they are sought to be brought in line with those in the ASEAN region. The pressure duty reduction is external and policy is not being formulated keeping in mind the (strategic) needs of the economy.

The more powerful interests in the country are able to get policies favourable to them while the less powerful, say, in agriculture or small scale sectors are unable to get policies that suit their interests. For instance, the opening up of the economy has seriously undermined the policy of reservations for the small scale sector. Opening up has gone along with the greater squeeze of the marginal sections in society, like the workers, so as to maintain the profitability of businesses. That explains why businesses have not opposed opening up which should have undermined their profits — what they lost to opening up has been more than made up through squeeze of labour and concessions from the government. They are happy to see a weakened labour and a rise in their own clout in the country.

3.2.4 Taxes on Expenditure, Agricultural Incomes and Services

Prof. Kaldor came to India in 1955 and wrote a report (GOI, 1956) suggesting ways to raise more resources for development. He systematically looked at the black economy and the structure of taxation in India and suggested that an expenditure tax be tried. He had been suggesting the implantation of this tax elsewhere also due to its supposed superiority over income tax. Expenditure tax is a tax on expenditures and not on income. It is supposed to exempt savings from taxation and thereby encourage savings and growth. However, it is a difficult tax to implement because of the complicated structure of the Indian economy and was tried only for a few years.

Expenditure tax is then applicable to a part of the income and as one goes to higher incomes brackets where the savings are higher, a smaller and smaller portion of the income would be taxed. Thus, it tends to become regressive with respect to incomes even if it does not appear to be so with re-

gard to consumption. Further, since the government needs the same amount of revenue as earlier — after all the object of tax reform is to at least get as much tax revenue as earlier and not to get less — revenue neutrality is required. This calls for a very high degree of progressivity in the rate structures. It is also argued that expenditure tax may help curb the black economy by enabling people to declare their savings, which are not taxed under this tax and, therefore, the incentive to hide them is absent. But the high degree of progressivity required means that those in the upper income brackets would fall in very high tax rate brackets and would have a huge incentive to evade taxes. This tax also has other problems, like, of lumpy expenditure. The argument that it exempts savings and, therefore, promotes them is also not correct because investments govern savings and unless investments increase there will not be increased savings. A mere change in the form of taxes that collect as much as earlier is unlikely to increase investments. In India, given these difficulties, this tax has been implemented from time to time on specific expenditures (like, consumption in luxury restaurants) but not in general.

Taxation of agricultural incomes has been a State subject so there is no income tax on agricultural incomes. This has been a sore point with many analysts and there are repeated demands for introduction of an agricultural tax. It is argued that for the sake of equity these incomes should be taxed. However, given that the share of agriculture in GDP has been falling rapidly (*see* Table 3.6), it is unlikely that this tax will be buoyant. Further, the average size of agricultural land-holdings have been declining in size over time so that very few can earn large incomes from agriculture. Also, with the operation of various land ceilings, it is legally not possible to have large operational holdings and, therefore, legally making large incomes in agriculture is not easy. It is possible that there are benami holdings but then the incomes from them would also be in different names. Finally, given the high exemption limit and many deductions, income tax begins at a high multiple of per capita income so that very few individuals with agricultural incomes would fall in the tax net.

The administrative difficulties of implementation of such a tax will be many and its cost of collection from a widely dispersed population would be huge. When it has not been possible to collect taxes from the services sector, which is concentrated in the urban areas with its existing taxation infrastructure, then it seems improbable that one could collect much from this tax which would require the creation of a vast infrastructure over a dispersed land mass and it would hardly be cost effective.

Further, most agriculturists do not keep accounts, which makes calculation of their incomes difficult. This would be even more difficult than collecting taxes from the small and cottage sector where some rudimentary

accounts are maintained. The problem is compounded by the mixed incomes of farmers and the use of own implements and so on.

The argument that agriculture pays no tax is incorrect because there are indirect taxes that have an impact on agricultural produce. Further, when income terms of trade for agriculture move adversely, that amounts to a tax on agricultural incomes. There are some subsidies for agriculture, such as on water, electricity and fertilisers, which aim to raise profitability and coax more output from the sector so that the country can be self-sufficient. However, these are proving to be inadequate to make this sector a viable one with many farmers expressing a desire to quit this sector. Work in agriculture is back-breaking compared to the services sector. It also needs to be borne in mind that subsidies on fertilisers go to the manufacturers and not the agriculturists.

It should also be reckoned that while urban India receives huge investments in infrastructure creation, the rural areas receive very little of it. This is also a discrimination against agriculture, which is largely situated in rural areas. Thus, while in principle, for the sake of equity, there should be an income tax on all incomes, this is one tax that is likely to pose many problems and result in diverting attention from collecting taxes from the services sector, which is not only the largest sector of the economy but also the fastest growing and where black income generation is rampant and tax collection minimal.

India introduced service tax on the ground that services should also pay a tax, like, the manufactured goods. It has been argued that since the share of services in India has risen sharply, this tax would yield much revenue. The drawback would be that it would lead to an enlargement of the indirect tax net, which as argued earlier, is stagflationary. It is not that services are not required to pay taxes. Those who earn incomes from providing services are supposed to pay income tax and corporation tax. That there is evasion of these taxes is a different matter — that is the case with all the taxes. There would be substantial evasion of the service tax also, otherwise incomes of the service providers would get detected, who would then be come under the direct taxes net. Thus, rather than put the effort into levying another tax, the effort should be to collect direct taxes from services. The levying of one more indirect tax would add to the complicated structure of cascading effect and make its resolution more difficult.

To tackle the cascading effect of the tax, there is now a roadmap to implement a GST (Goods and Services Tax) from 2012 (earlier 2010), which would be a unified indirect tax. It is hoped that this would take care of the cascading effect of various indirect taxes. Once again the motivation is the need of the external sector and not whether it suits the national requirements. A shift to this tax in a hurry without VAT having stabilised, in the case of

excise and sales tax, is likely to compound the difficulties and will end up encouraging black income generation. Further, there would be constitutional hurdles to be overcome.

There is talk of switching from income tax to VAT at all stages of production and sales. The underlying idea is that all taxes ultimately fall on the citizen's incomes so it should not matter whether they pay these taxes as direct or indirect taxes. However, as argued earlier, the macro economic impact and the progressivity aspects are different for the two kinds of taxes. Hence, substituting one by the other will only benefit the upper income groups and not the nation.

3.3 Some Aspects of Revenue Policies since Independence

India faced shortage of resources for development right from the beginning but the problem became more acute in the 1960s, due to the two wars and the major drought (Chapter III). Further, due to the continuing pressures of the national movement, egalitarian policies were sought to be pursued. Thus, the government imposed high rates of taxes on upper income brackets. In 1971, the highest marginal tax rate was 97.5%. Along with wealth tax, at an income of above ₹ 15 lakh the tax rate became more than 100%. Theoretically, this set an upper limit to net incomes and the accumulation of wealth by individuals.

Given that the per capita income in 1970-71 was ₹ 632 (Hicks, *et. al.* 1984: 213), ₹ 15 lakh was still 2,400 times the per capita income, a very high number for any country, especially for a poor one. The expectation that the high rates of taxation would promote greater equity in society were belied because the wealthy resorted to the black economy and flight of capital. They were willing to unravel the social consensus of which they were obviously unwilling partners even if that meant a breakdown in social functioning and weakening of the state. Their own narrow interests mattered more than the nation. They exerted massive pressure to have the tax rates lowered, and over the next thirty years the government systematically brought down the highest marginal tax rate to the present level of 33%. Each time the rates were lowered from their peak rates in 1971, the argument was advanced that the tax rates were still too high and needed further lowering. The question of what is a high tax rate was never addressed?

There can be no abstract definition for it. In India, since the elite sections have decided to pay as little taxes as they can and have looked for excuses to lower their tax liability, any rate is a high rate of tax. The black economy in 1970 was 7% of GDP according to Wanchoo Committee (GOI, 1971) and now when the tax rates are roughly 1 / 3 of what they were then, the size of the black economy has gone up to around 50% of GDP. Thus, it is not the

tax rates that matter for tax evasion but how easy it is to generate black incomes without fear of being caught (Kumar, 1999). Further, when an illegality is committed then the income from such activity cannot be declared, no matter what the tax rate. So, with illegality rising substantially, even though tax rates have gone down, the size of the black economy has also increased.

It has been argued that because India is a poor country, especially in the early period after independence, there were not enough incomes to collect much of direct taxes. However, this argument does not hold if disparities are high, as indeed they have been in India. In other words, while in general there has been mass poverty, a small section of society has had high incomes. And this section could have been taxed to obtain more direct taxes. But because this section was a part of the ruling elite and, therefore powerful, it could manipulate policies (legally or illegally) to suit its needs and paid little taxes (Graph 5.3 shows that in spite of the rising incomes of the elite sections, the direct tax-GDP ratio did not rise between 1950 and 2000).

That is why India has had to depend increasingly on indirect taxes (Table 5.4 and Graph 5.3 show its ratio to GDP constantly rising till 1990-91). These taxes fall mostly on the middle classes and the poorer people most of whom lie outside the direct tax net. As argued earlier, until 1997 only 1% of the population was in the direct tax net and because they and those rich who resort to the black economy pay very little direct taxes, the remaining, most of whom are legitimately outside the direct tax net end up paying the indirect taxes.

The affluent sections of society have argued that their counterparts in the West (their assumed peer group) have a high standard of living, so they too, are entitled to have a similar life-style and consequently, their taxes should be lower. Is this valid? Clearly not, since the point of comparison in a country should be its per capita income (the average income of fellow citizens) and not incomes in some other country, especially not the advanced nations. The elite in India have used this argument to pay lower taxes and have their tax burden lowered legitimately (by their reckoning). Of course, what they do not pay by resorting to black economy is additional — that does not enter their argument. Once again the arguments by the elite are governed by external factors and not the needs of the nation.

After 1991, under NEP, direct tax rates were brought down sharply. Rates of corporation tax, income tax, capital gains tax and wealth tax were all lowered. A "Laffer curve" argument, namely that taxation reduces the incentive to work, is falsely advanced to justify tax reduction. Further, large concessions were granted to businesses, like, the elimination of MRTP and dilution of both reservation for small scale sector and FERA. Thus, not only were the incomes of the affluent allowed to rise, but they were also allowed to retain a larger fraction of it in their hands. This was done on the plea of

giving incentive to these sections to invest in the economy and to attract capital from abroad.

Due to the sharp reduction in customs duties, the buoyancy of indirect taxes fell sharply and their share in GDP fell. The reduced protection for indigenous industry was partially compensated by the devaluation of the rupee which also gave exporters a boost by making Indian goods cheaper for foreigners but this was diluted by the withdrawal of subsidies to exports since under NEP, they are considered a distortion. So, after 1991, tax revenues fell sharply but some expenditures were also reduced so that the fiscal deficit declined, as required by the IMF conditionalities.

The tax-GDP ratio achieved in 1990-91 was again achieved in 2000-01. The fiscal position of the Central government started improving as both direct and indirect tax collections rose as a share of GDP. The dramatic rise in the direct tax-GDP ratio from 1999-2000 onwards was the result of shifting of national income in favour of the corporate sector (Kumar, 2007b) so that Corporate tax collection increased very rapidly after 2000-01 (Table 5.5 shows the buoyancy increase). Due to this the government was well on its way to achieve the FRBM targets. Further, because of the buoyancy of taxes, there were larger transfers to the States and their fiscal position improved significantly. With improvements in the economy, profits of the public sector also increased, contributing more to the government's finances and improving its fiscal situation.

One of the objects of the NEP was to lower the fiscal deficit in the budget. It had ballooned in the 1980s due to the rising interest burden, subsidies and defence expenditure. With rising inequalities and improved growth performance in the economy, the revenue deficit in the budget started decreasing after 2003-04 (Table 5.7). The fiscal deficit of the Centre has shown consistent improvement after 2001-02 as budgetary capital account expenditure remained low and plan expenditure as a share of GDP was brought down (Table 3.7). By 2007-08, the deficit situation looked healthy even for the States (Table 5.6). However, as the global crisis hit the Indian economy in 2008, the entire picture once again deteriorated rapidly showing India's increased vulnerability to the external sector. The deficit of the Central government, the state governments and the public sector has taken a dramatic turn and it was estimated that in 2008-09 the fiscal deficit became as high as 12% of GDP (Tables 5.8, 5.9 and 5.10). Once again the much maligned public sector has had to play a counter cyclical role in keeping the economy going. Now, the talk of implementing the FRBM targets has stopped.

Table 5.6

Budgetary Deficit of the Centre and the States

Year	Budgetary Deficit (₹ Crore)			Ratio to GDP (per cent)		
	Centre*	States	Total	Centre*	States	Total
First Plan						
1951-52	-33	37	4	-0.31	0.35	0.04
1952-53	46	-10	36	0.44	-0.1	0.35
1953-54	81	-45	36	0.72	-0.4	0.32
1954-55	142	-42	100	1.33	-0.39	0.94
1955-56	160	-7	153	1.47	-0.06	1.41
Total	396	-67	329			
Second Plan						
1956-57	185	56	241	1.43	0.43	1.86
1957-58	458	39	497	3.43	0.29	3.72
1958-59	247	-67	180	1.66	-0.45	1.21
1959-60	188	-1	187	1.2	-0.01	1.19
1960-61	-177	24	-153	-1.03	0.14	-0.89
Total	901	51	952			
Third Plan						
1961-62	115	29	144	0.63	0.16	0.79
1962-63	156	-36	120	0.8	-0.18	0.61
1963-64	167	-22	145	0.74	-0.1	0.64
1964-65	172	-38	134	0.66	-0.14	0.51
1965-66	173	196	369	0.63	0.71	1.33
Total	783	129	912			
Three Annual Plans						
1966-67	295	-170	125	0.94	-0.54	0.4
1967-68	206	84	290	0.56	0.23	0.79
1968-69	262	64	326	0.67	0.16	0.84
Total	763	-22	741			
Fourth Plan						
1969-70	46	-31	15	0.11	-0.07	0.04
1970-71	285	134	419	0.62	0.29	0.92
1971-72	519	266	785	1.06	0.54	1.6
1972-73	869	-14	855	1.61	-0.03	1.58
1973-74	328	175	503	0.5	0.27	0.77
Total	2,047	530	2,577			
Fifth Plan						
1974-75	721	30	751	0.93	0.04	0.97
1975-76	366	-16	350	0.44	-0.02	0.42
1976-77	131	3	134	0.15	0	0.15
1977-78	933	83	1,016	0.92	0.08	1
1978-79	951	-320	631	0.86	-0.29	0.57
Total	3,102	-220	2,882			

(Contd. . .)

Table 5.6 *(. . .contd)*

Year	Budgetary Deficit (₹ Crore)			Ratio to GDP (per cent)		
	Centre*	States	Total	Centre*	States	Total
Annual Plan						
1979-80	2,427	2,28	2,655	2.01	0.19	2.2
Sixth Plan						
1980-81	2,576	874	3,450	1.79	0.61	2.4
1981-82	1,392	1,127	2,519	0.83	0.67	1.49
1982-83	1,655	694	2,349	0.88	0.37	1.25
1983-84	1,417	718	2,135	0.65	0.33	0.97
1984-85	3,745	1,360	5,105	1.53	0.55	2.08
Total	10,785	4,773	15,558			
Seventh Plan						
1985-86	4,937	-1,498	3,439	1.78	-0.54	1.24
1986-87	8,261	889	9,150	2.65	0.29	2.94
1987-88	5,816	-312	5,504	1.64	-0.09	1.55
1988-89	5,642	-540	5,102	1.34	-0.13	1.21
1989-90	10,594	19	10,613	2.18	0	2.18
Total	35,250	-1,442	33,808			
Annual Plan						
1990-91	11,347	139	11,486	2	0.02	2.02
1991-92	6,855	226	7,081	1.05	0.03	1.08
Eighth Plan						
1992-93	12,312	228	12,540	1.65	0.03	1.68
1993-94	10,960	1,517	12,477	1.28	0.18	1.45
1994-95	961	-3,256	-2,295	0.09	-0.32	-0.23
1995-96	9,807	15,503	25,310	0.83	1.3	2.13
1996-97	13,184	-82	13,102	0.96	-0.01	0.96
Total	47,224	13,910	61,134			
Ninth Plan						
1997-98	66,288	-3,610	62,678	4.35	-0.24	4.12
1998-99	-144	-1049	-1193	-0.01	-0.06	-0.07
1999-2000	-13,817	-2,625	-16,442	-0.71	-0.13	-0.84
2000-2001	6,911	-7,820	-909	0.33	-0.37	-0.04
2001-2002	62,922	-73	62,849	2.76	0	2.76
Total	1,22,160	-15,177	1,06,983			
Tenth Plan						
2002-03	10,095	-7,053	3,042	0.41	-0.29	0.12
2003-04	-4,796	-7,781	-12,577	-0.17	-0.28	-0.46
2004-05	-63,802	-12,756	-76,558	-2.03	-0.41	-2.43
2005-06	23,563	-37,096	-13,533	0.66	-1.04	-0.38
2006-07(RE)	13,973	-24,555	-1,05,82.48	0.34	-0.59	-0.26
Total	-20,967.5	-89,241	-1,10,208.5			

(Contd. . .)

Table 5.6 *(. . .contd)*

Year	Budgetary Deficit (₹ Crore)			Ratio to GDP (per cent)		
	Centre*	States	Total	Centre*	States	Total
Eleventh Plan						
2007-08(BE)	1,748	-6,672	-4,924	0.04	-0.14	-0.1
Total	1,748	-6,672	-4,924			

(Source: Indian Public Finance Statistics, 2008.)

Note:

* Includes treasury bills and draw down of cash balances since 1997-98.

The ratios to GDP of the previous years have undergone changes as new series of GDP at current market prices, released by C.S.O. is used since 1950-51.

Table 5.7

Revenue Surplus(+) / Deficit(-) of the Centre and the States

Year	Revenue Surplus / Deficit (₹ Crore)			Ratio to GDP (per cent)		
	Centre	States	Total	Centre	States	Total
First Plan						
1951-52	126.39	13.63	140.02	1.2	0.13	1.33
1952-53	38.93	3.36	42.29	0.38	0.03	0.41
1953-54	8.5	-3.83	4.67	0.08	-0.03	0.04
1954-55	33.51	-11.58	21.93	0.31	-0.11	0.21
1955-56	41.7	-44.86	-3.16	0.38	-0.41	-0.03
Total	249.03	-43.28	205.75			
Second Plan						
1956-57	93.26	-25.88	67.38	0.72	-0.2	0.52
1957-58	42.99	30.88	73.87	0.32	0.23	0.55
1958-59	-5.25	48.31	43.06	-0.04	0.32	0.29
1959-60	42.55	39.57	82.12	0.27	0.25	0.52
1960-61	49.94	25.21	75.15	0.29	0.15	0.44
Total	223.49	118.09	341.58			
Third Plan						
1961-62	124.85	-45.52	79.33	0.69	-0.25	0.44
1962-63	113.4	22.98	136.38	0.58	0.12	0.7
1963-64	187.54	83.58	271.12	0.83	0.37	1.21
1964-65	273.9	56.82	330.72	1.04	0.22	1.26
1965-66	319.76	-34.08	285.68	1.16	-0.12	1.03
Total	1,019.45	83.78	1,103.23			
Three Annual Plans						
1966-67	228.76	-52.84	175.92	0.73	-0.17	0.56
1967-68	104.28	-1.43	102.85	0.28	0	0.28
1968-69	80.96	19.99	100.95	0.21	0.05	0.26
Total	414	-34.28	379.72			

(Contd. . .)

Table 5.7 *(. . .contd)*

Year	Revenue Surplus / Deficit (₹ Crore)			Ratio to GDP (per cent)		
	Centre	States	Total	Centre	States	Total
Fourth Plan						
1969-70	125.17	-65.92	59.25	0.29	-0.15	0.14
1970-71	163.02	-17.33	145.69	0.36	-0.04	0.32
1971-72	-99.95	9.08	-90.87	-0.2	0.02	-0.19
1972-73	17.72	-69.58	-51.86	0.03	-0.13	-0.1
1973-74	236.79	-117.62	119.17	0.36	-0.18	0.18
Total	442.75	-261.37	181.38			
Fifth Plan						
1974-75	764.29	-401.91	362.38	0.99	-0.52	0.47
1975-76	886.88	952.89	1,839.77	1.07	1.14	2.21
1976-77	298.45	1,096.61	1,395.06	0.33	1.22	1.55
1977-78	429.8	1,019.14	1,448.94	0.42	1	1.43
1978-79	292.3	1,135.38	1,427.68	0.27	1.03	1.3
Total	2,671.72	3,802.11	6,473.83			
Annual Plan						
1979-80	-694.09	1548.27	854.18	-0.57	1.28	0.71
Sixth Plan						
1980-81	-776.76	900.38	123.62	-0.54	0.63	0.09
1981-82	-293.44	1,310.43	1,016.99	-0.17	0.78	0.6
1982-83	-1,254.33	888.76	-365.57	-0.67	0.47	-0.19
1983-84	-2,397.67	217.76	-2,179.91	-1.09	0.1	-0.99
1984-85	-3,497.58	-898.3	-4,395.88	-1.42	-0.37	-1.79
Total	-8,219.78	2,419.03	-5,800.75			
Seventh Plan						
1985-86	-5,564.52	544.27	-5,020.25	-2	0.2	-1.81
1986-87	-7,776.04	21.48	-7,754.56	-2.5	0.01	-2.49
1987-88	-9,137.26	-1,038.27	-10,175.53	-2.58	-0.29	-2.87
1988-89	-10,514.42	-1,824.61	-12,339.03	-2.49	-0.43	-2.93
1989-90	-11,914.23	-3,507.18	-15,421.41	-2.45	-0.72	-3.17
Total	-44,906.47	-5,804.31	-50,710.78			
Annual Plans						
1990-91	-18,561.36	-5,106.72	-23,668.08	-3.26	-0.9	-4.16
1991-92	-16,261	-5,652	-21,913	-2.49	-0.87	-3.36
Eighth Plan						
1992-93	-18,574.53	-5,058.83	-23,633.36	-2.48	-0.68	-3.16
1993-94	-32,715.58	-3,475.2	-36,190.78	-3.81	-0.4	-4.21
1994-95	-31,028.81	-5,574.97	-36,603.78	-3.06	-0.55	-3.61
1995-96	-29,731.07	-8,734.17	-38,465.24	-2.5	-0.74	-3.24
1996-97	-32,654	-16,065.32	-48,719.32	-2.39	-1.17	-3.56
Total	-1,44,703.99	-38,908.49	-1,83,612.48			

(Contd. . .)

Table 5.7 *(. . .contd)*

Year	Revenue Surplus / Deficit (₹ Crore)			Ratio to GDP (per cent)		
	Centre	States	Total	Centre	States	Total
Ninth Plan						
1997-98	66,288.41	-16,701.89	49,586.52	4.35	-1.1	3.26
1998-99	-143.97	0	-143.97	-0.01	0	-0.01
1999-2000	-67,596.59	-53,763.09	-1,21,359.68	-3.46	-2.75	-6.22
2000-2001	-85,233.86	-50,175.09	-1,35,408.95	-4.05	-2.39	-6.44
2001-2002	-1,00,162.39	-56,942.13	-1,57,104.52	-4.39	-2.5	-6.89
Total	-1,86,848.4	-1,77,582.2	-3,64,430.6			
Tenth Plan						
2002-03	-1,07,879.4	-54,219.61	-1,62,099.01	-4.4	-2.21	-6.6
2003-04	-98,261.82	-59,015.83	-1,57,277.65	-3.57	-2.14	-5.71
2004-05	-78,338.25	-3,4201.7	-1,12,539.95	-2.49	-1.09	-3.57
2005-06	-92,299.89	-751.81	-93,051.7	-2.58	-0.02	-2.6
2006-07(RE)	-83,435.98	-1,420.36	-84,856.34	-2.01	-0.03	-2.05
Total	-4,60,215.34	-1,49,609.31	-6,09,824.65			
Eleventh Plan						
2007-08(BE)	-71,477.8	17,510.41	-53,967.39	-1.52	0.37	-1.15
Total	-71,477.8	17,510.41	-53,967.39			

(Source: Indian Public Finance Statistics, 2008.)

Note: The ratios to GDP of the previous years have undergone changes as new series of GDP at current market prices, released by C.S.O. from time to time.

Table 5.8

Gross Fiscal Deficit of the Centre and the States

Year	Fiscal deficit (gross) ₹ Crore			Ratio to GDP (per cent)		
	Centre	States	Combined	Centre	States	Combined
1970-71	1,408	1,638	3,046	3.04	3.54	6.59
1971-72	1,727	1,958	3,685	3.49	3.95	7.44
1972-73	2,179	2,185	4,364	3.99	4.00	7.99
1973-74	1,733	2,441	4,174	2.61	3.67	6.28
1974-75	2,302	1,894	4,196	2.93	2.41	5.35
1975-76	3,030	1,923	4,953	3.60	2.28	5.88
1976-77	3,802	2,444	6,246	4.19	2.69	6.88
1977-78	3,680	3,050	6,730	3.58	2.97	6.55
1978-79	5,710	3,676	9,386	5.13	3.30	8.43
1979-80	6,392	3,898	10,290	5.23	3.19	8.42

(Contd. . .)

Table 5.8 *(. . .contd)*

Year	Fiscal deficit (gross) ₹ Crore			Ratio to GDP (per cent)		
	Centre	States	Combined	Centre	States	Combined
1980-81	8,299	5,921	14,220	5.71	4.07	9.78
1981-82	8,658	6,064	14,722	5.07	3.55	8.62
1982-83	10627	6,950	17,577	5.56	3.64	9.20
1983-84	13,030	8,741	21,771	5.86	3.93	9.78
1984-85	17,416	11,402	28,818	6.99	4.57	11.56
1985-86	21,858	10,634	32,492	7.77	3.78	11.55
1986-87	26,342	12,563	38,905	8.37	3.99	12.36
1987-88	27,044	14,827	41,871	7.56	4.14	11.70
1988-89	30,923	15,326	46,249	7.28	3.61	10.89
1989-90	35,632	19,209	54,841	7.31	3.94	11.24
1990-91	44,632	23,120	67,752	7.83	4.06	11.89
1991-92	36,325	24,083	60,408	5.55	3.68	9.23
1992-93	40,173	26,322	66,495	5.34	3.50	8.83
1993-94	60,257	26,434	86,691	6.96	3.05	10.01
1994-95	58,233	33,656	91,889	5.73	3.31	9.05
1995-96	61,278	36,653	97,931	5.14	3.07	8.22
1996-97	66,808	43,488	1,10,296	4.85	3.15	8.00
1997-98	88,937	51,616	1,40,553	5.82	3.38	9.20
1998-99	1,13,348	85,385	1,98,733	6.47	4.88	11.35
1999-2000	1,04,716	1,01,940	2,06,656	5.36	5.22	10.59
2000-01	1,18,816	1,00,549	2,19,365	5.65	4.78	10.43
2001-02	1,40,955	1,11,950	2,52,905	6.18	4.91	11.10
2002-03	1,45,072	1,32,877	2,77,949	5.91	5.41	11.32
2003-04	1,23,272	1,88,957	3,12,229	4.47	6.86	11.33
2004-05	1,25,794	1,81,876	3,07,670	3.99	5.77	9.77
2005-06	1,46,435	1,21,757	2,68,192	4.09	3.40	7.49
2006-07	1,42,573	1,19,146	2,61,719	3.44	2.87	6.31
2007-08(R.E.)	1,43,653	1,52,535	2,96,188	3.05	3.24	6.28
2008-09(B.E.)	1,33,287	1,67,776	3,01,063			

(Source: Handbook of Statistics on the Indian Economy, 2007-08, RBI)

Note: RE : Revised Estimates. BE : Budget Estimates.

Table 5.9

Net Fiscal Deficit of the Centre and the States

Year	Fiscal deficit (₹ Crore)			Ratio to gdp (per cent)		
	Centre	States	Combined	Centre	States	Combined
1990-91	37,606	18,151	52,913	6.61	3.19	9.3
1991-92	30,844	18,421	45,328	4.72	2.82	6.94
1992-93	35,909	20,000	50,726	4.80	2.67	6.78
1993-94	55,257	19,610	69,794	6.43	2.28	8.12
1994-95	48,030	26,673	70,062	4.74	2.63	6.92
1995-96	50,253	32,021	77,428	4.23	2.70	6.52
1996-97	56,242	36,430	85,590	4.11	2.66	6.26
1997-98	73,204	43,388	1,08,989	4.81	2.85	7.16
1998-99	89,560	72,660	1,55,760	5.14	4.17	8.95
1999-2000	1,04,717	90,241	1,83,282	5.36	4.62	9.39
2000-01	1,18,816	82,412	1,92,429	5.65	3.92	9.15
2001-02	1,40,955	89,298	2,19,727	6.19	3.92	9.64
2002-03	1,45,072	95,255	2,28,631	5.91	3.88	9.31
2003-04	1,23,272	1,17,494	2,29,956	4.48	4.27	8.35
2004-05	1,25,794	1,00,743	2,28,664	3.99	3.2	7.26
2005-06	1,46,435	86,054	2,35,634	4.09	2.4	6.58
2006-07 (RE)	1,52,328	1,17,326	2,67,374	3.67	2.83	6.45
2007-08 (BE)	1,50,948	1,18,798	2,66,784	3.20	2.52	5.66

(Source: Indian Public Finance Statistics, 2008.)

Notes:

1. The figures are excluding State's share against small savings collections.
2. The ratios to GDP of the previous years have undergone changes as new series of GDP at current market prices, released by C.S.O. from time to time.
3. RE: Revised Estimate; BE: Budget Estimate

Under pressure from the IMF, the government has been trying to curb the budget deficits. While taxes were cut after 1991 and the tax-GDP ratio fell, expenditure could not be cut fast enough. As a result, the budgetary deficits were not coming under control. It was argued that the deficit pre-empts resources from the private sector and prevents it from growing faster. Kalecki (1972) and Kalecki (1976) show that financing of economic development by the private sector does not suffer even if the public sector expands its expenditure. He shows that once the expenditures are committed, demand increases and so do the savings to finance them. Yet, conservative economists insist on fiscal balance, basically to curb the role of the government in the economy. Under the neo-classical regime, balancing the budget and cutting the deficit is made a fetish. Even in the US, Republican Presidents like, Reagan, Bush Senior and Bush Junior have resorted to these arguments. In

Table 5.10

Deficit Indicators of Centre + States Combined

Time line	*Budget deficit*	*Revenue deficit*	*Fiscal deficit*	*Budget deficit*	*Revenue deficit*	*Fiscal deficit*
	Actual amounts (in ₹ Crore)			*Ratio to GDP in per cent*		
1951-52	4	140.02		0.04	-1.33	
1952-53	36	42.29		0.35	-0.41	
1953-54	36	4.67		0.32	-0.04	
1954-55	100	21.93		0.94	-0.21	
1955-56	153	-3.16		1.41	0.03	
1956-57	241	67.38		1.86	-0.52	
1957-58	497	73.87		3.72	-0.55	
1958-59	180	43.06		1.21	-0.29	
1959-60	187	82.12		1.19	-0.52	
1960-61	-153	75.15		-0.89	-0.44	
1961-62	144	79.33		0.79	-0.44	
1962-63	120	136.38		0.61	-0.7	
1963-64	145	271.12		0.64	-1.21	
1964-65	134	330.72		0.51	-1.26	
1965-66	369	285.68		1.33	-1.03	
1966-67	125	175.92		0.4	-0.56	
1967-68	290	102.85		0.79	-0.28	
1968-69	326	100.95		0.84	-0.26	
1969-70	15	59.25		0.04	-0.14	
1970-71	419	145.69	564.69	0.92	-0.32	6.59
1971-72	785	-90.87	694.13	1.6	0.19	7.44
1972-73	855	-51.86	803.14	1.58	0.1	7.99
1973-74	503	119.17	622.17	0.77	-0.18	6.28
1974-75	751	362.38	1,113.38	0.97	-0.47	5.35
1975-76	350	1,839.77	2,189.77	0.42	-2.21	5.88
1976-77	134	1,395.06	1,529.06	0.15	-1.55	6.88
1977-78	1,016	1,448.94	2,464.94	1	-1.43	6.55
1978-79	631	1,427.68	2,058.68	0.57	-1.3	8.43
1979-80	2,655	854.18	3,509.18	2.2	-0.71	8.43
1980-81	3,450	123.62	3,573.62	2.4	-0.09	9.78
1981-82	2,519	1,016.99	3,535.99	1.49	-0.6	8.62
1982-83	2,349	-3,65.57	1,983.43	1.25	0.19	9.2
1983-84	2,135	-2,179.91	-44.91	0.97	0.99	9.78
1984-85	5,105	-4,395.88	709.12	2.08	1.79	11.56
1985-86	3,439	-5,020.25	-1,581.25	1.24	1.81	11.55
1986-87	9,150	-7,754.56	1,395.44	2.94	2.49	12.36
1987-88	5,504	-10,175.53	-4,671.53	1.55	2.87	11.7
1988-89	5,102	-12,339.03	-7,237.03	1.21	2.93	10.89
1989-90	10,613	-15,421.41	-4,808.41	2.18	3.17	11.24
1990-91	11,486	-23,668.08	-12,182.08	2.02	4.16	11.89

(Contd. . .)

Table 5.10 *(. . . contd)*

Time line	Budget deficit	Revenue deficit	Fiscal deficit	Budget deficit	Revenue deficit	Fiscal deficit
	Actual amounts (in ₹ Crore)			Ratio to GDP in per cent		
1991-92	7,081	-21,913	-14,832	1.08	3.36	9.23
1992-93	12,540	-23,633.36	-11,093.36	1.68	3.16	8.83
1993-94	12,477	-36,190.78	-23,713.78	1.45	4.21	10.01
1994-95	-2,295	-36,603.78	-38,898.78	-0.23	3.61	9.05
1995-96	25,310	-38,465.24	-13,155.24	2.13	3.24	8.22
1996-97	13,102	-48,719.32	-35,617.32	0.96	3.56	8
1997-98	62,678	49,586.52	1,12,264.52	4.12	-3.26	9.2
1998-99	-1,193	-143.97	-1,336.97	-0.07	0.01	11.35
1999-00	-16,442	-1,21,359.68	-1,37,801.68	-0.84	6.22	10.59
2000-01	-909	-1,35,408.95	-1,36,317.95	-0.04	6.44	10.43
2001-02	62,849	-1,57,104.52	-94,255.52	2.76	6.89	11.1
2002-03	3,042	-1,62,099.01	-1,59,057.01	0.12	6.6	11.32
2003-04	-12,577	-1,57,277.65	-1,69,854.65	-0.46	5.71	11.33
2004-05	-76,558	-1,12,539.95	-1,89,097.95	-2.43	3.57	9.77
2005-06	-13,533	-9,3051.7	-1,06,584.7	-0.38	2.6	7.49
2006-07(RE)	-10,582.48	-84,856.34	-95,438.82	-0.26	2.05	6.31
2007-08(BE)	-4,924	-53,967.39	-58,891.39	-0.1	1.15	6.28

(Source: Indian Public Finance Statistics, 2008.)

India, FRBM (Fiscal Responsibility and Budget Management) Act was introduced and approved. It sets limits to be achieved for the fiscal and the revenue deficits for the Centre. Since taxes are cut on the ground of giving a stimulus to the private sector, fiscal balance limits government intervention, which is the real aim of these policies.

If the budget is not balanced, then the government has to resort to borrowing to finance its expenditures. This forces it to pay interest in the future. It is argued that the current generation is living on future generations. Further, it is argued that this leads to shortage of resources for the private sector. But is it not the case that industry also borrows to produce? It runs into problems when it is unable to earn enough profits to pay back the loans and the interest due. Similarly, if the government uses the borrowings to enhance its revenues, then the borrowings pose no problem. However, if the borrowings are used for consumption then like a bonded labourer the government would get into a debt trap. Thus, the government should not have a revenue deficit (akin to excess consumption by an individual), which it covers by borrowing.

Using its clout, the Centre has forced the States to also pass their own FRBM Acts to bring down the deficits in their budgets. The Finance Commission, a body that should have been neutral between the Centre and the States, was also used to coerce the latter into accepting the implementation

of FRBM. In a federal structure, the Centre-States relations are important but in India these have been heavily weighed in favour of the Centre with the States playing a subordinate role. This has undermined democracy in the country. The terms of reference of the Finance Commissions are set by the Centre and not in consultation with the States who should have had an equal say. Thus, the agenda is set by the Centre and it is able to push its will on the States, thereby truncating their already weakened autonomy.

This domination by the Centre is a consequence of its command over the resources of the nation. On the plea that there are scale economies in the collection of taxes, such as excise duties, income tax and corporation tax these were assigned to the Centre. A share of these taxes is given to the States. The Finance Commissions decide on how the taxes are to be shared and the States almost appear as supplicants for aid. The subordinate position has also bred irresponsibility in expenditures and resource-raising and made them even more dependent on the Centre. States show lower capacity to raise resources and claim higher expenditures and, therefore, higher deficits so as to get a larger share of the resources. This vicious cycle has led to the undermining of the federal structure of the country with the consequent impact on the nature of democracy and also weakening it.

The federal structure ought to mean that the financially stronger states would help the weaker ones and ought not to mind proportionately higher allocations to the latter. However, recently, this spirit has weakened and the richer States have been objecting to such an arrangement claiming that their own needs also have to be met. It is forgotten that the nation is interdependent so that while the richer States may be producing more, the poorer States provide them the market to sell some of these products. In an extreme example, Mumbai which contributes a large amount of corporation and income tax, since as the financial capital it is home to the headquarters of many corporations, it has been claiming that it should get all that money for its own development. These kinds of short-termist attitudes of the leadership and the elite sections reflect a weakening of the commitment of these sections to the idea of a collectivity and is undermining the democratic and federal spirit of the country.

3.4 Some Aspects of Expenditure Policies since Independence

Since independence, the nation has faced shortage of resources both for eliminating the grinding poverty afflicting the nation and for overcoming the large gap in infrastructure compared to the advanced nations (*see* Chapter IX), which represents the effort required to modernise the nation. To try to catch up with the developed economies, government expenditure has risen substantially. As Table 3.7 shows, expenditure on the Plan as a per cent of

GDP rose till 1989-90 and then declined. Budgets of all levels of government have shown an increase over time signifying the increasing role of government in the economy.

Poverty-related schemes such as employment generation (for instance, the recently started MGNREGA), education (Sarva Shiksha Abhiyan and the mid-day meal schemes), housing and loan waiver scheme have required large expenditures. A large part of the expenditure on social sectors are made from the State budgets but the Centre has also been providing resources to help the States in improving the situation. In a sense these expenditures are a result of the failure of the trickle-down policies and the modernisation policies (including the choice of technology and rapid urbanisation) which have led to the persistence of poverty and inequality. If policies were based on equity, then the poor would have been able to find productive employment to lift themselves out of poverty so that much less effort by the State would have been required.

Many of the pro-poor schemes depend for their proper functioning on the efficient operation of the local bodies such as the Panchayats and the Municipalities. They can cater much better to the local needs than the State or the far removed Centre and, therefore, there is need for autonomy for local bodies. This requires them to have their own tax sources, like property tax and profession tax. Unfortunately, incorrect arguments are borrowed from the West suggesting that higher taxes by local bodies would lead to people migrating to those areas where the tax rates are lower (termed as "foot loose"). However, this is false because in India people are not so "foot loose" because for them local ties are still very important. Further, even in the West, the level of services provided in a neighbourhood is vital. Many parents choose to pay higher taxes to relocate to districts with good schools. People tend to migrate away from those districts where due to poor services there is a breakdown in civic amenities and property values start to decline. The mobility of the propertied and their role in the power structure, among other factors are also important in the decision to stay in a place. Local taxes are only one of the many factors determining the choice of residence.

Concentrated urbanisation is an important determinant of government expenditure. Urbanisation depends on creation of massive infrastructure such as roads, telecommunication, public transportation, sanitation, street lights and sewage, among others. The larger the size of the cities, higher the costs because of rising land values and the need for more infrastructure. It is also argued that there are scale economies associated with urbanisation. This is true up to a point but as is evident in India, there are many scale diseconomies which set in. This is evident from the disarray in the most parts of major metropolitan Centres, such as Delhi, Mumbai and Kolkata where the civic amenities have collapsed leading to uncivilised conditions of existence

for a majority of the population in these cities. Only select parts of these cities (such as New Delhi and South Delhi in Delhi) have proper infrastructure. But then these are heavily subsidised by the state at the expense of the poor and rural areas.

Since the urban areas cannot survive without basic infrastructure as is the case with the rural areas, they have to be provided with these facilities but due to their high costs, either the citizens have to be charged a high price for them or they have to be subsidised (for a detailed argument, see Chapter IX). In India, large subsidies have been resorted to, to keep limited areas presentable to international visitors.

In addition, defence expenditure has had to repeatedly rise (Table 3.1) due to India's poor relations with its neighbours. Further, terrorism and separatist movements have required large expenditures to keep them in check. Not only have expenditures increased on the military forces, but also there are other related expenditures that are not fully accounted for under this head. The full expenditure on the defence forces is never clear because of lack of transparency. The expenditure on defence is slotted under various heads, including in the budget of the Home Ministry since the paramilitary forces are supposed to come under its purview. There is growing expenditure on policing due to the deteriorating law and order situation in the country. There are also growing regulatory expenses since the violation of rules in the country is rampant and governance weak. These represent in a sense unproductive expenditures and reduce the developmental role of the government.

Further, because of high indirect taxes, an increasing amount of subsidies are required to be given to exports and for consumption by the poor. This lowers the net amount of indirect taxes collected. Be that as it may, the expenditures in the budget rise and cause the fiscal deficit to grow, resulting in higher borrowings, higher interest burden and transfers. In fact, interest burden which is a transfer to the affluent sections of society has become the largest single item of expenditure since the 1980s. This item cannot be suddenly eliminated since it is based on the past commitments of the government due to its borrowings.

The importance of the Fiscal Policy Regime may be illustrated with the example of the functioning of the PSUs. They pay the direct and indirect taxes, which contribute to the government's revenues. In addition, they also pay dividend to the government while their retained earnings are spent on reinvestment. Thus, their entire surplus becomes a part of the budget. The budget contributes to the setting up of the PSUs through the investment policy of the government. If the government decides to keep inflation down, it does not allow the administered prices charged by the PSUs to rise but this results in losses or lower profits. In turn, this requires the budget to provide

support, which then raises the deficit in the budget. If there is cross-subsidy, again profits are affected and this requires fresh budgetary allocations. Losses of the PSUs also force them to borrow more from the markets, which affect the interest rates. Raising prices of goods produced by the PSUs (say, petro goods) results in higher inflation which through inflation indexation leads to some increases in salaries of the government employees so that the net budgetary effect of price rise is less than imagined. This is a simplified illustration of the inter-linkages amongst the various fiscal variables.

Subsidies are viewed negatively by neo-classical economists. However, in many cases they promote efficiency, like, when there are increasing returns to scale or when there are externalities. For instance, when a public transport system is subsidised and the cost of transportation lowered encouraging more people to use public transport and use less of private transportation, then it promotes social savings through reduced congestion, less of pollution and lower need for roads, flyovers and such other infrastructure. Similarly, subsidised high quality schools promote excellence in society, which leads to dynamism and to keeping children in schools (rather than dropping out and getting into trouble), thereby reducing various social costs.

Expenditures in the budget are divided between plan and non-plan, or developmental and non-developmental, or capital and revenue / current. The first refers to an accounting process which distinguishes between what is being currently planned and what is a result of commitment due to the past plans. Similarly, the second division signifies a difference between what may be seen as useful or wasteful. The third division represents an analytical distinction with respect to the time pattern of impact of the expenditure, like in the case of investment and consumption. For instance, salaries of employees can be plan or non-plan or developmental or non-developmental expenditure. Salaries of health workers would be counted as developmental while those of police would be non-developmental. The salaries of those to be employed in the current Plan would come under the plan head while if they refer to those employed in the past then they would be non-plan. The real distinction would be productive (salaries of health workers) and non-productive (army and police personnel salaries) but this would be controversial and create political problems. Yet, this distinction would lead to an understanding of how much productive potential is being created in the economy by government expenditures.

The black economy and poor governance in the country are an important reason for the rise in expenditure. They lead to higher budgetary allocations because expenditures do not lead to outcomes and, therefore, to achieve a given target more has to be spent or the targets are not achieved. Further, the budgets under pressure from the elite classes offer many concessions and deductions to the propertied classes resulting in lower revenues. These are

called tax expenditures and they reached ₹ 5 lakh crore according to the Union Budget 2010-11. A large part of these accrue to the corporate sector (controlled by less than 0.1 % of the population) and their magnitude is far higher than the amount of total subsidies spent on the poor.

It is argued that concessions and deductions are required to promote savings and investment. However, this need not be so and it has been argued that they simply result in changes in the form of savings whose total magnitude is determined (as per the Keynesian mechanism) by the magnitude of investments in the economy. Do private investments get stimulated by tax concessions? This is possible but it depends more on the state of demand in the economy. If there is spare capacity in the economy, concessions would do nothing to stimulate investments. In that situation, government expenditure would be a far more effective instrument to stimulate demand (as seen during the recent global economic crisis). The government deficit is also a source of demand but it is better to use direct taxation and expenditures to stimulate demand (Kalecki, 1971) so that the deficit remains unchanged. But if this is not feasible, when demand is short, it is better to raise the deficits in the budgets to stimulate demand.

India's difficult fiscal situation can only be understood if we take into account the excessive expenditures due to:

(a) the inappropriate policy framework adopted, based on trickle down and modernisation,
(b) the *ad hoc* policy changes (without resort to the appropriate fiscal policy regime), which lead to contradictions amongst policies, higher concessions and increased expenditures, and
(c) the impact of black economy on the various fiscal variables.

3.5 Fiscal Policies and Disruption in the Indian Economy

The disruption created by the colonial rule is visible in our fiscal situation and the fiscal policies. First, disruption led to wide spread poverty (Chapter X) and a weak production base both of which resulted in shortage of resources for development. Secondly, there was little investment over two centuries and that led to a large gap in infrastructure (Chapter IX) that has to be bridged for achieving the status of a developed nation. This led to the need for massive investment in physical and social infrastructure since independence. Thirdly, due to the emergence of a feudal minded and short termist ruling elite, fiscal policies were often not appropriate for the nation and especially the marginalised sections. Increasingly they have been pro-rich and pro-industry, especially in the phase starting 1991. The pro-affluent bias is

reflected in the way revenues have been raised and in the priorities regarding expenditures.

The bias in the revenue policies has been visible in the dependence on indirect taxes rather than on direct taxes and in turning a Nelson's eye towards the growing black economy. It is only in the post-1991 phase of NEP that the share of indirect tax decreased due to the cut in custom duties under pressure of international financial institutions. There was little reduction in excise and sales tax — the internal indirect taxes. Further, the NEP was a concession to international capital because national capital could not control the situation it created for itself through the resort to the black economy and flight of capital. The crisis they created for themselves did not mean that they had to sacrifice. Instead, they used the opportunity to extract concessions from the rest of society, including the marginalised. The elite unravelled the social consensus arrived at during the national movement and which was implemented in the 1950s and to which they were a party. That the unravelling meant a breakdown in social functioning and weakening of the state they dominated seemed not to matter. Their own narrow interests took precedence over the nation.

The revenue policies led to stagflationary tendencies in the economy from the 1950s so that fiscal policies rather than supporting equitable distribution supported unequal income distribution and lower growth. As was mentioned earlier, those who are too poor to pay a direct tax (so were exempted from it) have been made to pay tax through indirect taxes. Similarly, the black economy by leading to policy failure slowed growth and worsened the distribution both of which adversely affected the poor. The ruling elite has not been perturbed at this state of affairs since it has been the gainer from these policies.

Kalecki (1971) has shown that the best form of taxation from the macro economic point of view is tax on all forms of capital. However, this form of tax (such as tax on wealth, inheritance, gifts, and so on) is the least used in India because of the pressure from the propertied class. It is convenient for the ruling elite to accept this pressure in its own self interest. Further, the large number of concessions to the propertied class make our direct taxes regressive beyond a certain income even though formally the structure is progressive. However, the highest tax slab is reached quickly and beyond that the tax rate is flat. This is justified on the grounds of need for simplicity of taxation but when for the same reason it is suggested that deductions and concessions should be eliminated, this is resisted on the grounds of giving incentives. Either way, it is the well-off sections that benefit. The consequence is that the rich can legally earn incomes from work which are a hundred thousand times the poverty line and keep most of it. Of course, through

ownership of capital they can earn ten million times the poverty level income and pay a negligible per cent of it as tax.

Another example of the impact of disruption is the lack of independent thinking of India's leadership. They have followed a dependent fiscal policy where ideas are borrowed from abroad whether or not suited to the needs of the majority of Indians. They have failed to evolve policies within the country, for the country. For instance, there has been pressure to implement VAT. This is a difficult tax to implement given the large unorganised sector and informal production in the economy where records are not maintained. But pressure for it has been growing even internally because of both the desire to copy this tax from other countries and the diktats from IMF and WTO.

The problem has continued since the various commissions that have looked into the different aspects of fiscal policies have not adopted a realistic approach based on the Indian reality. This could be seen in the case of the Chelliah Committee Report on Reform of Taxes (GOI, 1992), which transformed the entire tax structure in line with the NEP and catered to the needs of the well-off sections of the population while overlooking the needs of the marginalised.

With regard to expenditures, the desire to modernise has pre-empted resources leaving little for the essentials. The priorities have not included rapid spread of high quality school education by spending at least 6% of GDP on this sector. Government schools have been allowed to run down and the elite have created expensive private schools for themselves. Hence, equal opportunity for all children has not been pursued and a large number of the poor who have little education are stuck in the poverty trap. Similarly, public expenditure on health and sanitation has been inadequate leading to growing health problems and expensive privatisation of the health system. The poor public sector performance has been used to further privatise even though it is well known that the poor cannot afford the latter. These examples of inappropriate priorities may be multiplied and together they have resulted in long-term problems for the society but the elite are unable to see it.

The other major disruption from the colonial period is the poor relationship with the neighbours, leading to high defence expenditure resulting in slower development. The government tries to cover up the various deficiencies in policies on the plea that this is the best that can be done. The lack of transparency in government finances is another colonial disruption. While it was expected from the colonial masters that they would hide the reality from the public there is no reason why this should have continued in independent India. But this is not surprising given the disruption in society which has led to an unchanged colonial bureaucracy.

4. Consumption, Consumerism and Shortage of Resources

Consumption by individuals has one part that is necessary to carry on life while the other part is socially determined and not in the same category of essentiality. Some data on growth in consumption in India is given in Tables 5.11 to 5.15). The first part is progressively becoming a smaller per cent of the total consumption. However, for the poor in India, it is still the dominant part (65 per cent of their expenditure is on food). For the elite, food has become a negligible part of their consumption even though they eat exotic and expensive foods. Similar is the case with other essentials like, clothing and shelter. For the elite, luxury goods and services now dominate their consumption bundle.

Table 5.11

Demand for Consumer Durables

	1995-96	*2001-02*	*2005-06*	*2009-10* (in '000)*
Cars	276	788	1,560	3,466
Motorcycles	760	2,599	4,663	8,369
CTV Regular	1,785	4,580	6,295	9,957
Refrigerators	1,850	3,006	4,335	6,774
White Goods	3,437	6,024	8,727	13,149

(*Source:* NCAER, 2005.)

* Projection

Table 5.12

Changes in Income Distribution

Income Bracket (in ₹.'000 per annum) (at 2001-02 prices)	*1995-96*	*2001-02*	*2005-06*	*2009-10* (in '000)*
<90	1,31,176	1,35,378	1,32,249	1,14,394
91-200	28,901	41,262	53,276	75,304
201-500	3,881	9,034	13,183	22,268
501-1,000	651	1,712	3,212	6,173
1,001-2,000	189	546	1,122	2,373
2,001-5,000	63	201	454	1,037
5,001-10,000	11	40	103	255
10,000+	5	20	52	141

(*Source:* NCAER, 2005.)

* Projection

Table 5.13

Households and Ownership of White Goods (2001-02)

Ann. Household Income ('000)	*Households (Million)*	*Two Wheeler*	*CTV*	*Refrigerator*	*AC*	*Car*
<90	135.4 (72)	0.07	0.05	0.04	0	0
90-200	41.3 (22)	0.47	0.04	0.34	0.02	0.04
200-1,000	10.7 (5.7)	0.07	0.73	0.62	0.15	0.32
>1,000	0.8 (0.4)	0.71	0.99	0.74	0.43	0.83
Total	188.00002	0.02	0.17	0.14	0.01	0.03

(Source: NCAER, 2005.)

Note: Figures in parenthesis are per cent of total.

Table 5.14

Per Capita Availability of Certain Important Articles of Consumption

Year	*Edible Oil (in kg / year)*	*Sugar (in kg /year)*	*Cereals and Pulses Total (in gram / day)*	*Milk (in kg / year)*	*Eggs (in unit per year)*	*Tea (in gram / year)*	*Cloth (in metre / year)*
1950-51			394.9	46.80	5.04		
1951-52			384.5				
1952-53			412.6				
1953-54			457.8				
1954-55			444.0				
1955-56	2.5	5.0	430.7			362	
1956-57			447.1				
1957-58			439.0				
1958-59			468.3				
1959-60			449.6				
1960-61	3.2	4.8	468.7	46.24	6.66	296	15.0
1961-62	3.2	5.8	460.9			337	16.0
1962-63	3.1	5.5	443.8			296	15.6
1963-64	2.7	5.0	452.0			266	15.9
1964-65	3.6	5.1	480.1			343	16.8
1965-66	2.7	5.7	408.1			346	16.4
1966-67	2.7	5.2	401.4			399	15.7
1967-68	3.4	4.3	460.2			339	15.3
1968-69	2.6	5.0	445.1			376	16.3
1969-70	3.0	6.1	455.0			430	15.6

(Contd. . .)

Table 5.14 *(. . . contd)*

Year	Edible Oil (in kg / year)	Sugar (in kg /year)	Cereals and Pulses Total (in gram / day)	Milk (in kg / year)	Eggs (in unit per year)	Tea (in gram / year)	Cloth (in metre / year)
1970-71	3.5	7.4	468.8	40.82	11.45	401	15.6
1971-72	3.0	6.8	466.1			426	14.6
1972-73	2.4	6.2	421.6			458	15.2
1973-74	3.4	6.1	451.2			492	13.9
1974-75	3.3	5.8	405.5			471	14.6
1975-76	3.5	6.1	424.3			446	14.6
1976-77	3.2	6.0	429.6			450	13.8
1977-78	3.8	7.2	468.0			516	13.5
1978-79	3.8	9.6	476.5			599	15.0
1979-80	3.7	7.8	410.4			521	14.7
1980-81	3.8	7.3	454.8	46.08	14.90	511	17.3
1981-82	5.1	8.2	454.8	49.82	15.80	466	17.1
1982-83	4.5	9.0	437.3	50.87	16.27	525	16.1
1983-84	5.8	10.5	479.7	53.97	17.79	519	17.3
1984-85	5.5	10.7	454.0	56.05	19.40	576	17.2
1985-86	5.0	11.1	478.1	58.64	21.49	589	21.5
1986-87	5.0	11.4	471.8	60.14	22.58	545	21.8
1987-88	5.8	11.7	448.5	59.67	22.74	592	21.0
1988-89	5.3	12.1	494.5	60.56	23.75	612	23.0
1989-90	5.3	12.3	476.4	63.01	24.77	571	22.7
1990-91	5.5	12.7	510.1	64.74	25.34	612	24.1
1991-92	5.4	13.0	468.8	65.04	25.81	655	22.9
1992-93	5.8	13.7	464.1	66.84	26.42	649	24.5
1993-94	6.1	12.5	471.2	68.56	27.34	667	26.2
1994-95	6.3	13.2	495.4	70.90	28.86	664	26.0
1995-96	7.0	14.1	475.2	71.80	29.50	646	28.0
1996-97	8.0	14.6	503.1	73.39	29.20	657	29.3
1997-98	6.2	14.5	447.0	75.12	29.89	635	30.9
1998-99	8.5	14.9	465.7	77.09	30.14	684	28.2
1999-00	9.0	15.6	454.4	78.58	30.56	642	30.6
2000-01	8.2	15.8	416.2	79.42	36.10	631	30.7
2001-02	8.8	16.0	494.1	81.69	37.48	650	32.0
2002-03	7.2	16.3	437.6	82.05	37.91	623	31.4
2003-04			462.7	82.48	37.82	662	31.0
2004-05			422.4	83.55	41.64	663	33.5
2005-06			444.5	88.05	41.92	687	36.1
2006-07 (P)				90.10	45.23	687	40.2

(Source: Economic Survey, Various Issues.) P: Provisional

Table 5.15

Energy Consumption in India

Year	*Total Production Coal and Lignite*	*Electricity Generated*	*Domestic Production Petroleum*	*Domestic Consumption of Petroleum*
	(million tons)	*(billion kWh)*	*(million tons)*	*(million tons)*
1950-51		6.6	0.2	3.3
1960-61		20.1	5.7	7.7
1970-71		61.2	17.1	17.9
1980-81	119.02	129.2	24.1	30.9
1981-82	130.54	131.1		
1982-83	137.43	140.3		
1983-84	145.52	151.0		
1984-85	155.21	169.1		
1985-86	162.25	183.4		
1986-87	175.20	201.3		
1987-88	190.88	219.0		
1988-89	207.0	241.3		
1989-90	213.69	268.4		
1990-91	225.5	289.4	48.6	55.0
1991-92	243.83	315.6		
1992-93	254.88	332.7		
1993-94	264.14	356.3		
1994-95	273.14	385.5		
1995-96	292.27	418.1		
1996-97	308.20	436.7		
1997-98	318.98	465.8		
1998-99	315.69	496.9		
1999-2000	322.09	532.2		
2000-01	332.58	554.5	95.6	100.1
2001-02	352.60	579.1		
2002-03	367.29	596.5		
2003-04	389.25	633.3	113.5	107.8
2004-05	412.95	665.8	118.6	111.6
2005-06	437.11	697.4	119.8	113.2
2006-07	461.98	744.3	135.3	119.6
2007-08 (Apr to Nov)	286.98		107.3	86.9

(Source: Economic Survey, Various Issues. Based on Ministry of Coal, Power and Petroleum and Natural Gas.)

Depending on the stage of development of society, there is a socially minimum necessary consumption. This is space and time specific. In Ladakh in the Himalayas, life is not possible without proper shelter, clothing and adequate nutrition, even for the poorest. In contrast, in a village in Tamil

Nadu, life is feasible with minimal shelter and clothing and much less of nutrition. For the poor, even this basic consumption may cost more than their incomes so that they need to borrow to consume and this often gets them into perpetual debt, which leaves them even more impoverished. Over time, as society changes, the basic minimum required to carry on life changes. For instance, today, without formal education, one would remain poor. Environment and health-related illnesses have increased leading to increase in family expenditure on these items. Thus, higher incomes are needed for the basic minimum consumption.

4.1 NEP and the Beginning of Consumerism in India

With modernisation and marketisation, Indian society is experiencing the phenomenon of consumerism, which refers to unnecessary consumption by individuals in society. Over time it acquires social characteristics when it gets generalised through the demonstration effect from the elite classes, who have the incomes to practise it, to the less privileged sections of society. This phenomenon is associated with the indiscriminate use of social resources and, therefore, affects the patterns of savings, investment and production in the economy. In a developing economy like India, where resources for development are scarce, it has led to a shortage of capital and, therefore, to a slower pace of development.

It may be argued that it raises demand by increasing consumption and, therefore, results in better capacity utilisation, higher levels of investment and faster growth. However, in an economy, which is constrained by capital and is faced with shortage of items like food and energy, it would result in lower growth and higher inflation, both of which slow down development.

In India, it has resulted in the separation between the more advanced sector with consumerism based on high salaries and the backward sector which has low salaries and low levels of consumption but where aspirations have risen sharply due to the high pressured advertising on television. This is resulting in a high level of dissatisfaction amongst the latter group since there is no way they can fulfil their rising levels of expectations. The high income group also saves more. Thus, as income disparities rise, there can be more consumption by the affluent sections of society, especially of the luxury items and white goods in absolute terms while the saving propensity rises. This is visible in the Indian context. The other aspect is that the consumption of the non-rich who are losing income share rises slowly and results in the demand for mass consumption goods rising slower, like, in the case of food and textiles.

Consumerism also results in irrationality with basic necessities being given lower priority as compared to consumption of luxury goods or con-

sumer durables that are not necessary but have become status symbols for the poor. For instance, the poor are often purchasing cell phones under social pressure even when the family hardly has enough to feed itself or send its children to schools. No wonder, India is afflicted with high levels of illiteracy and malnourishment in spite of rapid growth. In another instance, copying the upper classes, the lower classes are spending far more on marriage and dowry than they can afford (not that this did not happen earlier) thereby jeopardising their savings and even their retirement benefits. Often people are forced to borrow at high rates and that affects their life-style over long periods. In another era, Gandhi campaigned against the drinking of alcohol because that was destroying poor families whose budgets were being disturbed by this habit, resulting in problems for the entire family.

In brief, owning a cell phone or spending lavishly on marriage, far from being a sign of prosperity or being the indicator of the emergence of a family from poverty, may be an indication of aggravating problems for these families and especially those of the poor. Vested interests, keen to show the success of the NEP, point to these features of growing consumption to argue that India is not as poor today as is made out by data on consumption [like, the NSSO 2003-04 data used by GOI (2007c) to point out that 77% of the population spends less than ₹ 20 per day]. However, as argued in Kumar (1999), surveys are not very reliable since people not only do not reveal their white incomes fully but also hide their black incomes. Thus, when data show (like, NCAER, 2005) that even those earning low incomes consume some of the white goods then it is most likely that such individuals did not reveal their true incomes.

4.2 "Middle Class": Consumption Turning to Consumerism

Consumerism has been associated with the growth of the middle classes and their ownership of consumer durables. Often it is stated that in India they are a few hundred million strong (150 to 500 million). In principle, the middle group of a population should be half of it, that is about 600-million strong in a population of almost 1.2 billion. However, given the extreme poverty in the country, most of this population cannot consume much. With 77 per cent of the population in 2003-04 consuming less than ₹ 20 per day and 96 per cent less than ₹ 48 per day (GOI, 2007c), there is only a tiny per cent of the population at the top that can afford to practise what is understood as consumerism, namely be able to spend freely on consumer durables, like in the West. Buying once in a while or a second hand good is not the point.

In fact, in dollar terms most of the organised sector in India (bulk of the middle classes) would be below the poverty line in the West. The so-called middle class in India is unlike that in the advanced countries since it cannot

afford to buy freely. They do not throw away their equipment but get it repaired, partly because repairs are still cheap but largely because they cannot afford to buy frequently and replace equipment. This class is also very price sensitive and looks for cheaper products, though these items stand the risk of constant breakdown requiring repeated repairs.

What could be classified as the middle class by Western standards consists of perhaps less than 3 per cent of India's population, who enjoy substantial black incomes that give them the capacity to buy white goods (Kumar, 1999). This section and another below it in the income ladder have been increasing their consumption through the availability of consumer loans post the mid-1990s. Further, there has been a class of people that made capital gains in the various stock market booms and increased their consumption due to the wealth effect. Some have also used credit cards to increase their consumption. However, consumer credit and credit through credit cards would be a feasible proposition over time only if the income is expected to rise sharply, otherwise with the high interest rates prevailing over time, consumption of those taking such credit would go down as interest payments would eat into a bulk of the income.

The rapid growth in the black economy in India since the 1950s has enabled those with substantial black incomes (3 per cent of the population) to indulge in conspicuous consumption based on these incomes. Before 1991, smuggling of goods, into the country enabled the elite to consume white goods, luxury goods and superior quality goods that were then not available in the economy. The rapid growth of the financial sector has led to the growing concentration of incomes in fewer hands, especially the business, classes and this has fuelled their conspicuous consumption.

The real disparity in an economy is between the workers and the capitalists and not amongst the salary earners. Even the salary and perks of a professional managing director pale into insignificance compared to the incomes of owners of big and medium businesses. In most discussions, the focus is on the consumption of the middle class but not the rich. The reason perhaps is that the latter are tiny in numbers. The corporate sector and big business constitute perhaps less than half a million individuals with multiple and cross ownership of companies. They constitute less than 0.1% of the population.

The restraint on high incomes was removed soon after the launch of the NEP. In 1992, the upper limit on salaries and perks in the corporate sector was ₹ 3,12,000. It is true that earlier a large part of the corporate income was given as black and in the form of perks which were not accounted for. This arrangement was regularised with much of the under-the-table payments now formalised. Incomes above rupees ten million are now not unheard of. Along with these top incomes, the incomes of lower level management per-

sonnel also rose sharply. In contrast, the minimum wages have hardly risen by a factor of four in this period.

Consumerism got a small boost first in 1982 when white goods were allowed to come into India around the time of the Asian Games. Colour televisions were allowed in, washing machines entered the market, Maruti Udyog was set up, production of two-wheeler was expanded, and so on. However, as argued above the real fillip came after the launch of the NEP in 1991 when the real consumerism started in India.

Consumerism is also based on the notion of convenience in life, i.e. using gadgets to make life easy — using an electric tooth brush, washing machine, juicer, remote control for TV, eating pre-cooked food, and so on. There is no end to it. As automation has increased, so have the conveniences. It has resulted in massive increase in energy intensity in spite of increased energy efficiency of gadgets and also in waste and pollution. For instance, even though the use of computers allows paperless work, now that printing is easy a lot more drafts may be printed than was the case earlier. Everything has to be attractively packaged to sell and especially when the product itself may not be worth much or has to compete against other similar products. This increases waste.

Consumerism and its impact on the environment is increasingly being recognised and attempts to deal with the problem are being made (*see* Chapter X, Section 5). For instance, we keep lights on at homes and offices, which uses up a lot of energy. We try to save energy by shifting to the use of tube lights and CFL which are not only much more expensive but also use mercury, a substance that causes much pollution at the time of production, lead to the poisoning of the users if the CFL breaks and also if it is disposed off improperly. Mercury goes into rivers and then to fish and back to the consumers. The result is that we go from one problem to another — a typical "non-solution". So, what's the solution? It is to reduce the use of lighting. But instead of that we try various other things which result in other problems.

There is a trade-off between convenience and responsibility to the future of mankind. Similarly, lack of physical work due to conveniences has led to increased life-style diseases and mental disorders so that a large part of the additional leisure time made available by the conveniences is taken up in worrying and taking care of health if not by repairs of gadgets, choosing what to buy, taking care of homes, building bigger homes and doing more things. There seems to be a vicious cycle of convenience and waste of time and materials so that one can wonder whether when considered in their totality these conveniences are worth it.

Businesses actively propagate consumerism in society because their profits depend on it. They have turned festivals into commercial events with

most sales taking place around major festivals like Diwali or Christmas. They have actively propagated Valentine's Day or Mother's Day to boost sales of gifts. All this has resulted in raising expectations of higher consumption among all sections of society, especially the youth. But for the poor who do not have the incomes to fulfil such a life-style this has caused rising discontent. The consequence is a rise in crime among the youth and their falling prey to terrorist and separatist movements with their rejection of the current order and the promise of quick money.

The leadership of the country perhaps sees in consumerism an easy escape from the difficulties facing the country and for which it does not have solutions. The struggle for a better society is reduced to increasing consumption for self — the focus of the individuals shifts from the wider to the narrower while the system gets a respite and businesses their profits. Consumerism has allowed the elite to raise their incomes, claim progress and development, and appear to be closer to achieving western modernity while diverting the attention of the population from the difficult task of nation-building in which India has made only limited progress since 1947.

4.3 National Movement, Consumerism and Waste of Resources

At the time of independence, given the poverty, the background of the national movement and Gandhi's influence on it, the leadership decided that national resources were to be used for development and waste was to be minimised. Extreme poverty that existed then required rapid economic growth so that it could be eliminated in the shortest possible time. Commitment to this goal then was more than it is today because of faith in trickle down. Presently, the urgency is gone so that poverty is to be tolerated till it gets eliminated through trickle down. In contrast, at the time of independence, due to the pressure of democratisation of the national movement, it was given high priority due to which it was felt that there was a need for the maximum mobilisation of resources for development. It is another matter that under the mistaken notion of western modernity, the resources mobilised were put into elitist development while the poor as the residual were to benefit through trickle down.

The national movement required people, and especially the elite who were leading the movement, to sacrifice so that this was in-built into their consciousness. To fight the rulers, the leadership, even where it emerged from the elite, had to give up their privileges and make sacrifice — their jobs, studies and property, among others. This was lauded by the rest. At Moirang in Manipur, where the Indian National Army (INA) had entered India, there is a plaque telling the visitors and the nation that we are giving

up our today for the nation's future. The Congressmen had accepted Khadi and simple living as the symbols of their commitment to the nation and identification with the poor of the land who were the majority. Some of these influences lasted well into the 1970s.

Gandhi had a signal influence on the nation with his idea of "voluntary poverty" and simplicity in life. His renunciation of clothing and other symbols of affluence and call to live simply (even though some like Sarojini Naidu complained that to keep Gandhi in simplicity cost much more than if he were to live like others) were an example against which even the elite did not utter a word even if they could not emulate him in their own lives. His suggestion that after independence the Viceroy's palace (now the Rashtrapati Bhawan) be converted into a hospital and that the President of free India live in simplicity was never accepted by the leadership of independent India — perhaps on the spurious grounds of practicality and more likely because the leadership itself wished to live in the luxury that the British rulers lived in — but none could openly oppose what he said.

As development picked up pace in the mid-1950s, more and more resources were required for investment. India was attempting to modernise but lacked technology, which it was forced to import from the West. This led to a balance of payments (BOP) problem so that the country went in for import substitution and restriction of imports, especially of luxury goods.

As an adjunct to this policy of discouraging luxury consumption, high import duties were levied on "inessential goods" (like, white goods, watches and high-end textiles) or import of certain items was simply banned (like, cars and gold). To lower consumption in the economy high taxes were levied on the affluent sections. High interna! taxes were levied on luxury goods (like, cars and refrigerators) produced in the country in order to restrict their consumption. For instance, the production of cars was 35,000 units in 1983 before the advent of Maruti cars and the rapid expansion of the auto sector.

From the early 1980s, due to the IMF conditionalities when the government took a loan to tide over the BOP difficulties, consumption was liberalised. There has been no looking back since then. Growth based on consumerism has led to increased energy consumption (Table 5.15) both because of the pattern of consumption and production. Capital intensive production, higher levels of consumption and especially the consumption of white goods and luxuries has increased the consumption of energy. This has meant increased import of energy so that when the oil shock came in 1989 it resulted in another BOP crisis in the economy and another loan from the IMF and more conditionalities and more opening up and more consumption and imports. This precarious situation forced the nation to grant more concessions to international finance to attract capital and the accentuation of the vicious cycle of opening up and consumerism.

It is argued that the spread of telecommunication and television programming are examples of increase in beneficial consumption resulting from the NEP. However, these are examples of changes in technology resulting in increase in consumption. There are associated scale economies with these products and services and even if these were not liberalised and remained in the public sector, there would have been increased consumption. Whether it would have increased at a slower rate if they had remained in the public sector is a different question. Privatisation resulting in the indiscriminate targetting of the lower and the marginalised sections with high pressured advertising would certainly not have happened and these industries operating at lower levels of output may actually have turned out to be better for society.

Consumerism has gone along with the elite classes immunising themselves from feeling for the plight of the poor. For their comfort and luxury they use their services but pay them little. This is evident at every road crossing and market or in the homes where the poor provide cheap services. The low wages paid enables a higher level of consumption for the elite and it is justified on the ground that the poor are a burden on society and shirk work, that is, they are responsible for their own plight. These low wages are the underlying basis for a higher PPP valuation of the rupee in comparison to its dollar valuation but, as argued earlier, this higher valuation of the rupee is valid only for the well off. The elite do not feel that the poor also require decent civic amenities and that their children need to go to proper schools. They do not pay them a living wage even if they can afford it. This has eroded the elite's sense of equity in society. With marketisation, the elite have even stopped feeling guilty about this erosion because if they did, they would have to sacrifice some of their consumption but this would go contrary to the goal of increasing consumerism.

Consumerism is based on weakening individuals so that they become susceptible to consumerist pressures of advertising, and, therefore, makes it easier to control the population even if the long-term problems grow. This is contrary to what was attempted in the national movement when citizens had to become strong to oppose the colonial masters and their imposition. Consumerism also represents a breakdown of national consensus on policies and especially of restraint on consumption and collective responsibility. This is most visible in the life-style of the leadership, barring exceptions. Parliamentarians flaunting expensive clothing, watches, pens and cars are visible in most legislatures. There was a time when the members of parliament used to walk, cycle down or take a bus. In the evenings they are seen in the company with businessmen in five star hotels, restaurants or farmhouses. It is a failure of the leadership (with disrupted consciousness) that it does not understand what consumerism does in a poor society like India. The leadership has promoted consumerism thinking that it is a solution to its

immediate problems — little realising that the nation is getting trapped in another non-solution.

4.4 Waste and Resource Shortage

Shortage of resources in India is related to the consumption of the top three per cent of its population. If they wish to consume like the Europeans, the Americans and the Japanese, the peer group they wish to imitate (demonstration effect), then they would have to consume about 40 times the Indian per capita income. In other words, they would end up consuming 120 per cent of the national income. This would leave nothing for the remaining 97 per cent. That is why India appears to be short of resources. But the shortage is only for the consumerism of the top 3 per cent and not for the basic needs of the 97 per cent whose consumption can be fulfilled in the available per capita income. Also, the consumption of the elite is energy and import intensive and requires foreign exchange. That is not the case with the consumption of the ordinary people. The little bit of import required for their consumption (food, fertilisers, and so on) can be obtained easily on the basis of what the country can ordinarily afford to export.

Baran (1973) argues that as a capitalist economy develops, waste increases. He has defined "potential" and "planned" economic surplus; these two ideas go beyond the concept of profit in production. They are also different from the "actual" surplus in production, which is the excess of value of output over cost of production. Since the value of output can be higher than is produced and the costs can be lower, the surplus can be higher than is actually observed and is the "potential" surplus. Further, if a lot of irrational output could be curtailed, the surplus could be even higher. This is defined as the planned surplus. The potential and the planned surpluses represent the capacity to produce higher welfare in society at the same or even lower levels of production.

It is argued that as capitalism has advanced, waste in society has increased, which while not increasing welfare in society, leads to increased production and profits. Costs are increased by unproductive work, like advertising, product differentiation, and so on. Demand is sought to be created for goods and services that are not essential for life. Fizzy drinks are 99 per cent water and harmful in various ways, especially for children, but due to their brand image, life-style statement and peer group pressure it sells and makes large profits for its producers and distributors. In many areas in India (even villages), where clean water is not available one can now get these drinks. This is one instance of an increase in resource cost to society. Many more such examples can be given. Similarly, smoking was deliberately promoted even though it was known in the 1950s that it is highly injurious to

health, of both the smokers and others in their proximity. It is only through a concerted campaign that the craze for smoking has been scaled down. Such irrational production gives the impression of the economy generating a lower surplus and therefore being short of resources.

Increasing consumption and consequent waste also result in growing pollution, which causes ill health and further expenditures. In India, the high incidence of road accidents, poor sanitation and related health problems result in increase in wastage. Waste also occurs with under-utilisation of scale economies due to factors like product differentiation and non-standardisation of products. While waste may be acceptable in affluent societies, in a society as poor as India, this is criminal because it is at the expense of the poor. For instance, in elite educational institutions toilets may be renovated at huge costs while large number of schools in Delhi (what to talk of villages) do not have any toilet facilities. In the same way, while floors and furniture of elite schools may be replaced, many children in the rural parts of the country do not have school buildings to go to. Similarly, in Delhi, street light poles and pavement stones are replaced repeatedly while villages have no electricity or roads.

It may be argued that waste enables the level of income and employment to be maintained through generation of demand and, therefore, results in increased investment and growth. However, if instead of waste, essential facilities were created in rural areas, demand would also have been maintained. Similarly, militarisation may be used to maintain demand but its social and political consequences are frightening. Thus, associated with waste is the question — what is the kind of society and what its priorities are? Growing level of waste is a reflection of the elitist nature of the ruling class.

4.5 Waste Consistent with Profit Maximisation

The above points to waste in society being consistent with profit maximisation for businesses. This is especially so when agents are short-termists and do not take the future into account. If the social aspects are not taken into account by individuals or firms or both then this problem arises. When social concerns are weak then waste increases further. For instance, if one gets an instrument repaired but the mechanic repairing it does so in such a way that the machine breaks down again so that the client is forced to repeatedly come for repairs, then profits go up but social waste increases. Take another instance; if an industry pollutes in the belief that society will bear the cost of

clean-up then while the industry's profits go up, waste increases since the cost of clean-up of the disposed hazardous / waste materials rises because when it disperses in the environment, the cost of its clean-up is far higher than if it had been cleaned at its source.

Profit maximisation also can be achieved through cost minimisation. But the firm looks at only its cost and not that of the society or to individuals and, therefore, does not mind shifting the cost from itself to society (as in the above example of pollution). Take the case of automakers; as a strategy, they deliberately keep the quality of the car poorer than what is possible so that the car begins to need a lot of repairs after a few years (called designed life) and they couple that with a strategy of introducing new car models to coincide with this designed life so that the individual is attracted to buy another car rather than to have the old car repaired. Further, repairs are deliberately kept expensive so as to induce the idea of buying a new car rather than repairing the old one. Thus, the strategy while profitable to the firm causes increased pollution of environment and increased waste in society.

As marketisation has spread in society with the NEP, it has become legitimate to make profits in any possible way — greed has been raised to a new, high pedestal. Earlier, making illegitimate profits was considered to be anti-social but now more and more new ways are being found to expand profits at the expense of society. Adulteration of food items, producing spurious medicines and so on are increasing rapidly. In brief, the functioning of the unchecked markets and the generation of black incomes are leading to failure of markets in increasing welfare of society even though it appears that society is developing. Further, growing consumerism associated with marketisation is creating attitudes that a poor society, like India, can ill-afford.

5. Planning and Public Sector

As discussed in Chapter III, in India planning and public sector went hand in hand soon after independence (data on public sector is given in Tables 5.16 to 5.21). Latter was needed for the success of the former. However, this was not enough since the economy remained predominantly private sector. A bulk of the national resources remained in the private sector and it was difficult to pry them out from there (*see* Robinson, 1978). As the size of the black economy increased the task became more difficult and ultimately led to the failure of both planning and the public sector (Kumar, 1999).

Table 5.16

Contribution of Public Sector in GDP, Select Years, 1950 / 51- 2007 / 08

Year	*(₹ Crore)*		
	GDP at 1980 / 1981 Prices	*Public Sector (1980 / 1981 prices)*	
		Total	% of GDP
1950-51	42,871	NA	
1960-61	62,904	5,051	8.0
1970-71	90,426	12,469	13.8
1980-81	1,22,427	24,171	19.7
1990-91	2,09,791	50,188	23.9
2000-01	19,02,998	4,65,601	24.46
2007-08	31,29,717	8,87,757	28.36

(Source: NAS, 1993, 2004 and 2009.)

Table 5.17

Share of Public Sector in Gross Domestic Savings and Gross Domestic Capital Formation during the Various Plans

Average for Plan Periods	*As per cent of GNP at Market Prices*	
	Public Sector	*Total*
Gross Domestic Savings		
First Plan : 1951-56	1.7	10.4
Second Plan : 1956-61	2.0	12.4
Third Plan : 1961-66	3.4	14.3
Fourth Plan : 1969-74	3.0	17.4
Fifth Plan : 1974-79	4.6	21.6
Sixth Plan : 1980-85	3.6	20.1
Seventh Plan : 1985-90	2.3	20.4
Eighth Plan : 1992-97	1.4	23.3
Ninth Plan :1997-2002	-.66	23.62
Tenth Plan: 2002-2007	1.76	31.16
Gross Domestic Capital Formation (GDCF)		
First Plan	3.5	10.7
Second Plan	6.6	15.4
Third Plan	8.4	16.7
Fourth Plan	7.2	18.1
Fifth Plan	9.5	21.2
Sixth Plan	11.1	21.6
Seventh Plan	10.7	22.8
Eighth Plan	9.2	24.6
Ninth Plan	6.66	23.1
Tenth Plan	7	27.88

Source: C.S.O., NAS, 1998, RBI (2009) and Economic Survey 2009-10.

Table 5.18

Organised Sector Employment in Public and Private Sectors

(in lakhs)

Year	*(1) Public Sector*	*(2) Private Sector*	*(3) Total*	*as % of (3)*
1961	70.50	50.40	120.90	58.31
1971	111.00	67.00	178.00	62.00
1981	155.00	74.00	229.00	68.00
1991	190.00	77.00	267.00	71.00
2001	191.38	86.52	277.9	68.86
2003	186.00	84.00	270.00	69.00
2007	180.02	92.40	272.42	66.00

(Source: Economic Survey (2004-05 & 2009-10).]

Table 5.19

Top Ten Profit-making Central Public Sector Enterprises, 2008-09

(In ₹ Crore)

Sl. No.	*CPSEs*	*Net Profit*
1.	ONGC	1,6041.0
2.	NTPC	8,309.62
3.	SAIL	6,171.03
4.	NMDC Ltd.	4,371.86
5.	Coal India Ltd.	3,290.03
6.	BHEL	3,126.32
7.	GAIL Ltd.	2,814.09
8.	IOC	2,569.89
9.	Oil India Ltd.	2,166.31
10.	South Eastern Coalfields	2,014.81

(Source: Public Enterprises Survey 2008-09.)

5.1 Role of Public Sector in India's Development

In the 1950s when the public sector was conceived, it was assigned many roles for the development of a very poor and backward country. There was no option because the private sector could not (and perhaps did not want to) perform these functions. So, not only has this sector played a critical role in promoting development but also helped the growth of the private sector through encouraging private investment. Together they have led to higher levels of growth in the economy. Additionally, the public sector has also played the following roles:

- Working counter-cyclically to steady the growth of the economy,

- Played a strategic role by developing technology,
- Proper use of the scarce resources of the country,
- Greater self sufficiency for the economy and especially in the field of defence,
- Of being an ideal employer who would not squeeze wages to generate higher profits,
- Development of backward areas through investments there,
- Investment in infrastructure, which requires huge investment with a long gestation,
- Creating social infrastructure,
- Checking the growth of private monopolies,
- Keeping prices in check, and
- Cross-subsidising goods and services needed by the poor or those in backward areas.

In fulfilling most of these goals, the profit motive was not a criterion for the setting up of the public sector. Hence, this should also not be the criterion for judging its performance. However, this is also no reason for condoning poor governance or corruption.

Investment promotes demand in the economy and keeps growth from faltering as is often the case in capitalist economies. Further, when investment is carried out in the backward areas then demand is generated in these areas and leads to their development. This is not all, in the backward areas if industry is to be set up infrastructure also has to be created. This opens up areas for further development and investment by the private sector. For example, when canals are dug, a lot of employment is generated. Due to requirements of the investment small new businesses come up along the canal and when the canals start functioning because of seepage of water in the neighbouring areas, investment in private tube-wells takes place and this results in more business, and so on.

Another critical role of the public sector has been in providing cheap infrastructure. Even when the public sector has run at a loss, infrastructure, like roads or electricity have been provided at cheap prices compared to advanced countries. This enabled the private sector to generate higher profits, which in turn promoted further investments. In the case of electricity, when agriculture or industry gets cheap electricity, then profits of industry and agriculture rise and lead to further investments.

Table 5.20

Profile of Central Public Sector Enterprises 1978-79 to 2008-09

(₹ Crore)

S. No.	Criteria	1978-79	1980-81	1982-83	1984-85	1986-87	1987-88	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
1.	No. of Enterprises	159	168	193	207	214	221	232	234	231	226	230	227	226	217	214	213
2.	Capital Employed	13969	18207	25626	36382	51835	5812	302947	331372	389934	417160	452336	504407	585484	661338	723719	793096
3.	Gross Margin	1765.82	2400.89	5184.54	7386.21	9896.76	11245	62212	69287	89550	101691	127320	142554	150262	177990	195169	187431
4.	Depreciation	694.59	983.06	1719.75	2758.4	3375.63	41334	19942	20520	26360	28247	31251	33147	34848	33141	36680	36788
5.	Gross Profit (3-4)	1071.23	1417.83	3646.74	4627.81	6521.13	71925	42270	48767	63190	73444	96069	109407	115414	144849	158489	150643
6.	Interest	886.18	1399.15	1922.74	2529.2	3420.46	3519.2	20233	23800	24957	23921	23835	22869	23708	27481	32200	40330
7.	Pre-Tax Profits (5-6)	185.05		1542	2098.61	3100.67	3521.1	22037	24967	38233	49523	72234	86538	91706	117368	126289	110313
8.	% of Gross Margin to Capital Employed	13.19	19.54	20.3	20.30	19.09	193.48	20.54	20.91	22.97	24.38	28.15	28.26	25.66	26.91	26.97	23.63
9.	% of Gross Profit to Capital Employed	7.64	7.79	13.06	12.72	12.58	12.5	13.95	14.72	16.21	17.61	21.24	21.69	19.71	21.90	21.90	18.99

(Source: Public Enterprise Survey, various Issues.)

Table 5.21

Gross Domestic Product Contribution of Public Sector by Type of Economic Activity at 1993-94 Prices

(in ₹ Crore)

	Mining and Quarrying		Manufacturing		Electricity, Gas and Water Supply		Transport, Storage and Communication		Railways		Communi-cations		Financing Insuran-ce, Real Estate & Bus-iness Services		Banking and Insurance		Total Public Sector GDP	
Year	1	%	2	%	3	%	4	%	4a	%	4b	%	5	%	5a	%	6	
1960-61	688	19.1	1,569	12.9	1,057	86.9	4,983	61.8	2,849	100	1,024	100.0			820	31.1	18,555	9.0
1961-62	545	14.3	2,371	17.9	1,230	88.5	5,335	61.9	2,981	100	1,116	100.0			820	27.5	20,763	9.8
1962-63	1,090	25.6	3,250	22.4	1,428	91.5	5,730	61.7	3,219	100	1,227	100.0			1,022	32.2	24,234	11.2
1963-64	1,187	27.1	3,669	22.7	1,701	92.3	6,129	62.0	3,409	100	1,372	100.0			1,037	31.2	26,607	11.7
1964-65	1,159	26.1	4,006	22.9	1,859	92.3	6,360	61.3	3,457	100	1,483	100.0			1,205	34.9	28,969	11.8
1965-66	1,330	26.8	4,317	23.9	2,089	94.0	6,835	62.5	3,721	100	1,575	100.0			1,479	41.1	31,717	13.4
1966-67	1,390	27.4	4,287	23.7	2,320	96.1	7,169	63.6	3,779	100	1,667	100.0			1,506	42.3	33,697	14.1
1967-68	1,533	29.3	4,426	25.3	2,654	99.1	7,537	63.0	3,890	100	1,754	100.0			1,773	48.6	35,916	13.9
1968-69	1,602	29.8	4,809	25.7	3,089	102.1	7,970	63.3	4,027	100	1,807	100.0			1,965	47.4	38,928	14.7
1969-70	1,690	29.9	4,941	22.5	3,402	103.2	8,252	62.1	4,170	100	1,903	100.0			2,249	49.7	42,032	14.9
1970-71	1,690	32.1	5,053	22.5	3,568	101.9	8,739	63.5	4,297	100	2,063	100.0			3,007	60.9	45,805	15.5
1971-72	1,824	33.8	4,786	20.9	3,848	101.7	9,114	64.2	4,487	100	2,184	100.0			3,317	60.6	48,516	16.2
1972-73	2,286	40.0	5,285	22.4	4,032	101.8	9,632	63.2	4,672	100	2,304	100.0			3,598	61.9	51,631	17.3
1973-74	4,757	82.1	5,866	23.7	4,143	102.3	9,656	60.9	4,339	100	2,473	100.0			3,952	67.5	56,891	18.2
1974-75	4,873	80.2	6,850	27.4	4,330	102.2	10,032	57.6	4,545	100	2,575	100.0			3,627	68.5	58,184	18.4
1975-76	5,907	86.7	6,503	25.8	4,923	101.5	11,478	60.9	5,105	100	2,749	100.0			4,240	67.4	63,313	18.4
1976-77	6,268	88.8	7,435	26.2	5,466	101.0	12,748	63.1	5,465	100	2,981	100.0			5,311	69.7	69,958	20.1
1977-78	6,009	82.6	8,171	27.0	5,733	101.1	13,049	63.0	5,734	100	3,121	100.0			5,999	72.4	73,525	19.6
1978-79	6,281	84.0	8,393	25.0	6,441	102.0	13,164	59.5	5,692	100	3,328	100.0			6,954	72.5	78,888	20.0
1979-80	7,344	97.2	8,525	25.9	6,527	102.1	13,779	58.9	5,776	100	3,599	100.0			6,687	72.2	82,283	22.0
1980-81	7,921	93.4	9,324	28.8	6,754	99.7	14,834	59.4	5,935	100	3,855	100.0	7103	27.2	6,956	75.2	88,791	22.1
1981-82	9,277	96.5	9,135	26.2	7,513	101.3	15,833	60.0	6,529	100	4,149	100.0	7582	26.8	7,427	74.8	93,206	21.9
1982-83	11,819	110.2	10,220	26.7	8,154	103.1	16,244	59.8	6,639	100	4,358	100.0	8574	27.4	8,412	73.6	1,02,535	23.4

(Contd. . .)

Table 5.21 *(. . .contd)*

1983-84	13,575	123.3	11,267	25.7	8,946	105.6	16,349	57.8	6,542	100	4,628	99.9	9637	28.0	9,466	75.7	1,09,445	23.2
1984-85	14,891	133.3	11,877	25.0	9,756	103.1	17,495	57.9	6,637	100	5,044	99.9	10770	28.9	10,588	76.9	1,17,738	23.9
1985-86	15,445	131.1	13,341	27.4	10,335	100.8	18,852	58.1	7,530	100	5,144	99.8	12342	30.0	12,145	77.3	1,27,845	24.9
1986-87	16,992	127.0	16,124	31.3	11,618	102.5	19,923	57.8	8,219	100	5,485	99.7	13905	30.4	13,695	75.5	1,38,862	25.9
1987-88	18,418	133.1	16,104	29.2	12,641	103.6	20,897	56.7	8,599	100	5,801	99.5	15412	31.1	15,190	77.3	1,47,945	26.6
1988-89	19,777	124.3	18,708	30.7	13,578	100.3	21,334	55.4	8,490	100	6,065	99.2	18322	33.2	18,085	80.3	1,58,483	25.8
1989-90	21,068	123.4	18,065	26.0	15,764	104.5	22,446	54.7	8,895	100	6,397	98.7	21734	34.9	21,542	79.2	1,71,575	26.1
1990-91	20,125	106.5	20,484	28.1	16,196	100.0	23,091	53.8	9,370	100	6,789	98.0	22457	33.5	22,196	77.0	1,76,720	25.5
1991-92	21,977	112.2	21,827	30.7	17,884	100.0	24,254	53.2	10,139	100	7,215	96.8	26410	35.2	26,137	77.3	1,87,758	26.8
1992-93	20,935	105.6	22,245	30.3	19,167	100.1	25,016	52.4	9,842	100	7,970	95.3	26893	33.9	26,606	75.6	1,92,708	26.1
1993-94	18,458	91.9	24,870	30.4	20,925	100.2	26,058	51.0	9,648	100	8,813	93.6	31370	34.8	31,070	74.6	2,02,512	**25.9**
1994-95	22,030	100.3	26,778	28.6	24,869	119.7	28,147	50.1	9,846	100	10,324	93.9	32596	34.1	32,281	71.4	2,14,111	**25.6**
1995-96	22,711	97.6	26,827	25.0	26,780	120.8	31,839	51.1	10,657	99.9	12,342	94.7	33739	32.8	33,409	66.7	2,30,061	**25.6**
1996-97	21,895	93.7	24,624	20.7	29,433	125.9	34,158	50.6	11,169	100	13,843	95.2	38107	34.6	37,762	68.7	2,40,452	**24.8**
1997-98	22,085	86.0	34,066	28.9	31,805	126.1	38,266	52.4	11,367	100	16,696	95.0	40001	32.6	39,639	61.2	2,69,001	**26.5**
1998-99	21,537	81.6	36,059	30.0	32,257	119.5	42,315	53.6	11,541	100	19,955	94.7	45533	34.5	45,156	64.0	2,88,939	**26.7**
1999-00	22,575	82.8	28,583	23.0	29,532	104.0	47,762	54.5	12,586	100	24,205	94.2	50359	34.5	49,962	62.5	3,05,160	**26.6**
2000-01	24,189	86.6	25,121	18.7	28,759	97.1	54,016	54.9	13,108	100	29,209	89.7	46558	30.9	46,149	58.4	3,09,766	**25.8**
2001-02	24,765	86.8	34,936	24.9	27,679	90.2	60,227	56.4	14,024	100	33,544	88.1	48824	31.0	48,403	59.3	3,34,341	**26.4**

(Source: National Accounts Statistics, various years.)

Cheap education and health have led to improvements in the productivity of the population and trained manpower, which helped the country to develop. Public schools, skilled colleges and universities (including IITs and IIMs) laid the foundation of the educated manpower, which is now recognised globally. It laid the foundation for India's manpower base, which led to the growth of the software industry, which in turn fuelled the growth of call centres and business process outsourcing (BPO) firms. The development of technology led to relative self-sufficiency for the country and increased its bargaining power in international fora. In brief, in spite of its many deficiencies, the public sector has played a crucial role in the country's development.

The flip side of the creation of the public sector in India was that the ruling elite used it to push its programme of modernisation so that a major component of it was large projects with imported technology. This led to dependence on trickle down, large scale displacement of the poor and the marginalisation of the marginals. The problem was not so much public sector but the kind of public sector because of the faulty understanding of "development" among the elite. It represents another disruption resulting from the colonial rule.

The elite, who wanted to control the direction of the economy so that it could push its agenda of modernisation, went in for central control with financial power increasingly controlled by the Centre. This was contrary to the need of the hour, namely in a vast and diverse country there was need for decentralised planning. This should not mean the dilution of planning but proper inter-linkages from below. This is tricky but possible to do. Unfortunately, the incorrect understanding on the part of the elite ruling became another cause of the failure of planning in India.

5.2 PSUs and Profitability

If earning profit has not been a criterion in setting up the public sector then it cannot be like the private sector whose sole aim is profit maximisation and the two ought not to be compared with each other. Of course, if the public sector is privatised then the private sector can use it oligopolistically or monopolistically and generate high profit for itself so again profit cannot be the point of comparison between the two. Thus, profitable running of a privatised PSU cannot be used to judge whether it was being run inefficiently prior to privatisation — the comparison is invalid. While there are obvious inefficiencies in the public sector due to corruption, over staffing, and so on, which reduces its profitability but these need to be tackled differently. The

private sector is not immune to generating black incomes. If the social goals ascribed to the PSUs are to be achieved the private sector cannot be expected to do that. So, rather than throwing the baby out with the bath water other means have to be tried to rid the PSUs of corruption. The ruling elite gains either way from the public sector, whether it is publicly or privately owned, only the set of people who share the spoils of corruption in the public sector or the profits when privatisation takes place, changes (Kumar, 1999).

The public sector losses have been largely due to its misuse by the political class and the bureaucracy for its own narrow ends. In a sense, it has hardly been run as public sector and the ruling elite has seen in it an opportunity to make additional gains through misusing its power. Even the business class has gained from such corruption through additional incomes. There have also been those units, such as in textiles, engineering and coal that were nationalised after the private sector had taken out capital from them and left them with huge accumulated losses. These units were never able to overcome their problems and remained sick after nationalisation.

A major problem of the PSUs is their decision making process. It is bound to be far more complex than in the private sector because it has multiple and at times seemingly contradictory goals to fulfil (as listed above). The reason why a decision is taken at the higher level for pursuing a goal may not be obvious at the lower levels, so it can be frustrating and demoralising for them. It does not have the simple unilinear goal of short-run profit maximisation. Often it seems to have the opposite goal and this can confuse the managers who then give up and use the situation to make gains for self. If a steel plant is told to supply steel at cheap prices to the railways and cannot raise the price year after year this could end up demoralising the managers who see their operations running at a loss and then being berated for inefficiency. The larger purpose of keeping railway freight cheap is of no concern to the steel plant managers. Similarly, the railways keeping freight rates low for bulk traffic and suffering a loss may demoralise its managers. BHEL, supplying cheap power plants to Libya or NPCC constructing railway lines in Iraq and not receiving payment for these projects, and therefore suffering huge losses and being blamed for the losses, are some stark examples. There are similar stories galore in the public sector. The NPCC was unlucky to not even have its full top management team for years (under Prime Minister Rajiv Gandhi). In fact, in the case of some PSUs, the entire loss can be traced to some of these kinds of misadventures of the government but it is the public sector that had to suffer the consequence.

The feudal minded rulers have thought of the public sector as its fiefdom for making additional gains and foisted needless controls in the name of

public accountability. The concept of autonomy, critical for the public sector, has largely been in letter — not spirit. Those controlling it have diverted profits, misused its facilities, such as guest houses, vehicles and air conditioners, placed their favourites at prime positions and appointed "Yes-men" at the helm for getting all this done. Thus, the public sector managers have often been willing partners in the misuse of the public sector for private gains. To function properly, the public sector needs fiercely independent-minded managers to run it but it was largely manned by the exactly opposite kind of people. Under the circumstances, does it not make sense to privatise the public sector so that it could run more "efficiently"?

However, the citizens, especially the poor, gained from the PSUs though not as much as they could have if it had been run better. For instance, they gained in terms of prices, availability of goods and services that the private sector may not have produced, more employment, development of backward areas, infrastructure in remote areas, steady growth and so on. Prices were either controlled and fixed or not allowed to rise or kept down using subsidies or kept down for the deprived sections through cross-subsidy or through lowering of the monopoly power of the private sector through direct marketing, PDS, Mother Dairy and so on.

5.3 Disinvestment and Privatisation

Privatisation began in 1990 with the Dalla Cement in UP. It was gifted by a chief minister with socialist pretensions to a private party for a pittance. Assets worth ₹ 150 crore were given for ₹ 15 crore for an upfront payment of ₹ 1 crore and the rest to be paid over a long period of time. Workers protested but were fired on and many died. But the real disinvestment and privatisation programme began as part of the strategic retreat of the state after 1991 under NEP. Their effect is to increase the scope for the private sector and allow it to raise its degree of monopoly since the checks on it would disappear (*see* Kalecki, 1971 for a discussion). In India, the proceeds of this process have been used to show a lower fiscal deficit. It has not been allowed to accrue to the public sector unit where disinvestment is taking place, to shore up its capital and improve its performance. It should be clear that the private sector is more keen to take over PSUs *via* strategic sale or privatisation but it has not been averse to disinvestment so that at a later date it can lay claim to buy over the unit at the appropriate time. Some data on privatisation in India is given in Tables 5.22 to 5.26.

Table 5.22

Financial Details of Disinvested Public Sector Enterprises

(In ₹ Crore)

Sl. No.	*Name of Enterprise*	*Paid up capital*	*Net Profits 1991-92*	*Reserves and Surpluses*
1.	Hind Petroleum	63.84	120.04	729.69
2.	Bharat Petroleum	50.00	127.81	616.11
3.	Bharat Earth Movers	30.00	46.14	320.05
4.	Videsh Sanchar	60.00	8.58	285.19
5.	BHEL	244.76	164.52	292.05
6.	Shipping Corp.	216.23	95.25	308.10
7.	IPCL	186.00	57.25	510.62
8.	Bharat Electronics	80.00	34.25	182.84
9.	Indian Telephone	87.69	36.07	215.62
10.	Hind Organics	49.35	31.97	121.28
11.	Madras Refinery	96.58	50.55	128.30
12.	MTNL	600.00	95.80	51.66
13.	Hind Zinc	403.73	84.05	212.22
14.	Bongaigoan Refinery	199.82	48.50	138.94
15.	CMC	15.15	-6.78	5.72
16.	Hind Photofilms	119.53	1.98	36.49
17.	Andrew Yule	7.90	3.73	23.46
18.	Cochin Refinery	68.93	60.84	112.47
19.	STC	30.00	23.13	296.84
20.	Rashtriya Chemical	551.69	40.76	326.90
21.	HMT	78.56	14.15	173.60
22.	SAIL	3985.89	244.69	1127.51
23.	Neyveli Lignite	1435.82	95.24	679.61
24.	Hind Cable	45.84	2.32	79.56
25.	NALCO	1288.62	71.94	231.00
26.	National Fertilisers	491.58	29.74	223.46
27.	FACT	239.31	23.37	59.20
28.	Dredging Corp.	28.00	14.77	84.59
29.	MMTC	50.00	77.28	300.07
30.	IRRCON	4.95	8.97	180.15
Total		10,884.00	1,730.12	8,753.21

[*Source:* GOI (1992). Public Enterprises Survey 1991-92.]

Note: Enterprises listed in Sl. No. 1 to 15 disinvested up to 20%, Sl. No. 15 to 17 between 10% and 20%; the rest less than 10%.

Table 5.23

Actual Disinvestment from April 1991 Onwards and Methodologies Adopted

Year	*No. of Companies in Which Equity Sold*	*Target Receipt for the Year (₹ in Crore)*	*Actual Receipts (₹ in Crore)*	*Methodology*
1991-92	47 (31 in one tranche and 16 in other)	2,500	3,038	Minority shares sold by auction method in bundles of "very good", "good", and "average" companies.
1992-93	35 (in 3 tranches)	2,500	1,913	Bundling of shares abandoned. Shares sold separately for each company by auction method.
1993-94	-	3,500	0	Equity of 7 companies sold by open auction but proceeds received in 1994-95.
1994-95	13	4,000	4,843	Sale through auction method, in which NRIs and other persons legally permitted to buy, hold or sell equity, allowed to participate.
1995-96	5	7,000	361	Equities of 4 companies auctioned and government piggy backed in the IDBI fixed price offering for the fifth company.
1996-97	1	5,000	380	GDR (VSNL) in International market.
1997-98	1	4,800	902	GDR (MTNL) in International market
1998-99	5	5,000	5,371	GDR (VSNL) / Domestic offerings with the participation of FIIs (CONCOR, GAIL). Cross purchase by 3 oil sector companies I.E. GAIL, ONGC, & Indian Oil Corporation.
1999-00	4	10,000	1,860	GDR-GAIL, VSNL-domestic issue, BALCO restructuring, MFIL's strategic sale and others.
2000-01	4	10,000	1,871	Strategic sale of BALCO. LJMC: Takeover — KRL (CRL), CPCL (MRL), BRPL.
2001-02	9	12,000	5,632	Strategic sale of CMC – 51%, HTL-74%, VSNL – 25%, IBP – 33.58%, PPL –74%, and sale by other modes: ITDC & HCL; surplus reserves: STC and MMTC.

(Contd. . .)

Table 5.23 *(. . .contd)*

Year	*No. of Companies in Which Equity Sold*	*Target Receipt for the Year (₹ in Crore)*	*Actual Receipts (₹ in Crore)*	*Methodology*
2002-03	6	12,000	3,348	Strategic sale : HZL – 26%, MFIL-26%, IPCL – 25%, HCL, ITDC, Maruti: control premium from re-nunciation of rights issue, ESOP: HZL, CMC.
2003-04	9	13,200	1,5547	Maruti- IPO (27.5), Jessop & Co. Ltd. (strategic sale – 72%), HZL (call option of SP -18.92%), public offers – IPCL (28.95%), CMC(26%), IBP (26%), DRDG(20%), GAIL(10%), ONGC((10%). ICI (9.2%).
2004-05	-	4,000	2,764.87	Offer for sale of NTPC and spill over ONGC; sale of shares to IPCL employees.
2005-06	-	No target fixed	1,569.68	Sale of MUL shares to Indian public sector financial institutions and banks and employees.
2006-07	-	-	-	-
2007-08	-	No target fixed	2,366.94	Sale of MUL shares to public sector financial institutions, public sector banks and Indian mutual funds.

(Source: GOI (2007b).)

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Table 5.24

Target and Proceeds of Disinvestment, April 1991 Onwards

(In ₹ Crore)

Year	*Target*	*Proceeds*
1991-92	2,500	3,038
1992-93	2,500	1,913
1993-94	3,500	-
1994-95	4,000	4,843
1995-96	7,000	361
1996-97	5,000	380
1997-98	4,800	902
1998-99	5,000	5,371
1999-00	10,000	1,860
2000-01	10,000	1,871

(Contd. . .)

Table 5.24 *(. . .contd)*

Year	*Target*	*Proceeds*
2001-02	12,000	5,632
2002-03	12,000	3,348
2003-04	14,500	15,547
2004-05	4,000	2,765
2005-06	No target fixed	1,570
2006-07	-	-
2007-08	No target fixed	2,367
Total	96,800	51,609

(Source: GOI, 2007b.)

Table 5.25

Status of Privatisation of State Level Public Enterprises (31 March, 2003)

State	*No. of Enter-prises*	*No. Priva-tised*	*No. Pro-posed to be privatised*	*Closed*	*Working Enterprises*	
					Profit Making	*Loss Making*
Andhra Pradesh	128	30		22	15	25
Tamil Nadu	82		39	11	34	47
Arunachal Pradesh	5			2		
Assam	42			5	3	36
Bihar	54			30	8	
Delhi	15				5	3
Goa	16					
Gujarat	49	3		6	22	24
Haryana	28	1		2	12	16
Himachal Pradesh	21				8	13
Jammu-Kashmir	23			2	3	16
Karnataka	79		5	12	32	38
Kerala	109		15	23	34	59
Lakshadweep	1					
Madhya Pradesh	34			6		
Maharashtra	66		3		18	44
Manipur	16			2		
Meghalaya	13			1	3	10
Mizoram	6				1	4
Nagaland	6					3
Orrisa	67	1		1	14	10
Pondicherry	11				5	5
Punjab	53	1	4	24	10	25
Rajasthan	29	1		1	11	11
Sikkim	11			2		
Tripura	9					
UP	104		24	23	30	68
West Bengal	81		10	5	20	62
Total	1158	35	103	180	288	519

(Source: Mishra, 2004.)

Table 5.26

Details of Privatised Enterprises

Enterprise	*Month*	*Buyer*	*Equity Sold (%)*	*Amount (in ₹. Crore)*
Modern Food Industries Ltd.	Jan 2000	Hindustan Lever	74	94.51
	Nov 2002	Hindustan Lever	26	44.07
Legan Jute Machinery Company	July 2000	Murlidhar Ratanlal Exports Ltd.	74	2.53
BALCO	Mar 2001	Sterlite Industries	51	551.50
CMC	Sep 2001	Tata Sons Ltd.	51	152.00
Hindustan Teleprinters Ltd.	Oct 2001	Himachal Futuristic	74	55.00
Hotel Airport, Mumbai	Oct 2001	L. Batra	100	83.00
Hotel Juhu, Mumbai	Oct 2001	Tulip Hospitality	100	153.00
Hotel Rajgir	Oct 2001	Inpec Travels	100	6.51
Hotel Ashok, Banglore	Nov 2001	Bharat Hotels	On lease	39.41
Hotel Bodhgaya Ashok	Nov 2001	Lotus Nikko Hotels	100	2.01
Hotel Hassan Ashok	Nov 2001	Malnad Hotels	100	2.51
Hotel Madurai Ashok	Jan 2002	Sangu Chakra Hotels	100	5.48
VSNL	Feb 2002	Tata Group	25	1,439.00
IBP	Feb 2002	Indian Oil Corp. Ltd.	33.58	1,153.68
Paradeep Phosphates Ltd.	Feb 2002	Zuari Maroc Phosphates Ltd.	74	151.70
Jessop & Co. Ltd.	Feb 2002	Ruia Kotex	72	18.18
Hindustan Zink Ltd.	Feb 2002	Sterlite Industries	26	445.00
Mamallapuram Ashok Beach Resort	Feb 2002	GR Thanga Maligai	100	680
Hotel Agra Ashok	Feb 2002	Mohan Singh	100	3.93
Qutub Hotel, Delhi	Feb 2002	Sushil Gupta & Consortium	100	35.67
Lodhi Hotel, Delhi	Feb 2002	Silverlink Holdings	100	76.22
Laxmi Vilas Hotel, Delhi	Feb 2002	Bharat Hotels	100	7.52
Indian Petrochemical Corp. Ltd.	May 2002	Reliance Industries	26	1,490.84
Maruti Udyog	May 2002	Suzuki Motor Corp.	49.74	2,424.00
Kovalam Ashok Beach Resort	June 2002	M Far Hotels Ltd.	100	43.68
Hotel Airport Ashok, Kolkata	June 2002	Bright Enterprises Ltd.	100	20.01
Hotel Aurangabad Ashok	June 2002	Loksangam Hotels Ltd.	100	17.40
Hotel Manaii Ashok	June 2002	Auto Impex Ltd.	100	4.00
Hotel Kanishka, Delhi	July 2002	Nehru Place Hotels	100	95.95

(Contd. . .)

Table 5.26 *(. . .contd)*

Enterprise	*Month*	*Buyer*	*Equity Sold (%)*	*Amount (in ₹. Crore)*
Hotel Indraprastha, Delhi	July 2002	Moral Trading & Investment Ltd. - Mittal Group	100	45.03
Hotel Varanasi Ashok	July 2002	Ramnath Hotels (P) Ltd.	100	9.11
Hotel Khajuraho Ashok	July 2002	Bharat Hotels Ltd.	100	2.21
ITDC (Incomplete project) at Chandigarh	July 2002	M/s TAJGVK Hotels & Resorts Ltd.	100	17.27
Hotel Ranjit	Oct 2002	Consortium of Formax Commercial Pvt. Ltd. and Unison Hotels Ltd.	100	29.28

[Source: GOI (2007b). Also Naib (2004).]

PSUs are of several categories — profit-making, chronically loss-making and those that are sometimes in the red and sometimes in the black. Most of the chronically loss-making units were the nationalised ones, like in the area of textiles and engineering, among others. The private sector had mostly run them down and taken out their capital through various devices and then handed them over to the government. They were so run down that they could never stand on their feet. PSUs operating in a competitive environment, like banks, airlines and hotels or where they had an interface with the public sometimes earned a profit but often made losses in spite of the monopoly / oligopoly they may have enjoyed. Those units that were in competition with the private sector suffered from slow decision making and manipulations by the private sector, directly and indirectly.

Due to privatisation and the demand to generate profits, employment in PSUs started to fall after 1991 and one of the social commitments was thus diluted. In many cases, employment for subsidiary functions was outsourced to the private sector — like, railway catering, security guards and car drivers' jobs in many public sector establishments. As a sop to the public sector, the well managed PSUs (18 to start with) were designated as Navaratnas in 1997 and they were in principle given more autonomy. Later, six of them were designated as Maharatnas. The criteria were disinvestment and public shareholding, global presence, and so on. The idea clearly is to marketise their operations. So, even when some PSUs do well in spite of all the cards stacked against them, they are slowly to be privatised.

Since few businessmen wished to take over chronically loss-making units with huge accumulated losses, it is the better run PSUs that the private sector has been interested in. However, the private sector has also been interested in taking over those units that possessed prime land. Thus, the government

continued to hold most of the loss-making units while losing some of the profit-making units. This has meant that the profile of the remaining PSUs looks worse and the contribution to the budget (*see* Section 3.4 above) becomes less. The disinvestment programme has met with stiff opposition from the PSU unions and the Left parties. This has slowed down the process of privatisation and the government has not been able to achieve targets in most years.

However, over time disinvestment and privatisation have become more acceptable to the political parties and the people because much has changed in the economy. But what this implies is that the ruling elite has given up the pretence of public purpose. Often disinvestment and privatisation are being carried out at low prices by manipulating to lower the profits of the public sector company before divesting or privatising it. This has the additional advantage that it can be used to convince the public that the company was not doing well and that the private investor would run the company better.

The sale of the Centaur Hotel to a private player who then sold it for a huge profit within six months of acquiring it is well known. Similarly, the profitability of BALCO plummeted before it was privatised. In many cases, the public sector did not have a chief executive or a finance officer for quite some time — a sure recipe for decline in profitability especially in the bureaucratic environment that the public sector in India operates in.

The biggest problem is the valuation of the unit to be sold. A unit run as PSU has many social obligations, consequently, it suffers from high costs and low profitability while a private sector unit has few such obligations so it potentially has high profitability. Further, the profits siphoned out by the corrupt public sector managers and policy makers become available as additional profits. Thus, the income stream of a PSU is no indication of its profitability and its discounted price. One needs to calculate its potential profitability and price. Further, in many cases the real estate associated with the PSUs is highly valuable and needs to be appropriately valued. The catch is that most PSUs when appropriately evaluated would be so expensive that they can only be purchased by MNCs and not Indian businesses. However, that was not politically feasible. When the first round of disinvestment took place in 1992, the CAG report pointed out that proxies for the MNCs were buying the shares. This created a huge stink for the government and it had to back track. But in the absence of open bidding, including by the MNCs, prices could be manipulated amongst the bidders. Thus, valuation is the most tricky aspect of the disinvestment process and can be manipulated to suit vested interests and keep the public confused.

The disinvestment and privatisation process shows the confusion in the mind of the Indian ruling elite. It is dismantling an instrumentality that was helping it to make additional gains and serving many useful purposes. To the

extent the PSUs were helping the poor, it prevented alienation and this role is now getting diluted so that the rulers are losing a means of better governance which would create long-term problems. For instance, the PDS was used to release food in the market and control prices of these essentials but its decline since the mid-1990s, has lowered the capacity to control prices resulting in public disapproval of the government. Where the lacunae in the functioning of the PSUs lay was well known and it was within the capacity of the ruling elite to reform itself and run PSUs as they should be run. But for temporary gains it has undermined its own instrumentality of better functioning much like the fellow chopping the branch he was sitting on. As the case of Dalla Cement shows, even the so-called socialists went in for privatisation.

In brief, the creation of the public sector in India, its faulty focus on large-scale operations, modernisation, disinvestments and privatisation are other examples of the colonial disruption and the manner in which the ruling elite in the country have complicated the situation in the country. A solution for a poor country has been mismanaged over time and the solution sought post-1991 is another example of a non-solution. With the short-termist approach of the leadership, it has used the situation to make private gains and sacrifice the country's long-term interest by throwing out the baby along with the bath water.

5.4 Planning in India

At the time of independence, with daunting problems all around, such as illiteracy, poverty and ill health, urgent steps were necessary to ameliorate the situation. Much was expected from independent India by not only the people but also the world. There were the skeptics (for instance, Churchill, in England) who were waiting to see India falter because they felt that Indians were incapable of tackling their own problems.

India had suffered severe exploitation during the colonial rule and lagged behind in investment in all fields. As a result, it had a small developed market and little investible resources. It was important for free India to raise resources rapidly and utilise them optimally. This is where planning came into the picture as an exercise in optimality. In the post-independence drive for modernisation and for self-sufficiency, the twin goals of the nationalistic leadership, the government adopted the strategy of self-sufficient industrialisation based on the public sector with subsidy from the budget.

The idea of planning was that it could change the basic direction the economy would take if left free. So, the removal of poverty or modernisation could be attempted even if by itself the economy would not have successfully tackled them. Without planning, would the economy have achieved the

goal of modernisation? Yes, but much more slowly. The private sector would have wasted a lot of resources and would have invested far less in basic industries and infrastructure which formed the basis for its own advancement. Further, if the state had not intervened the focus would have been even more on investment and growth and not on employment generation and distribution of income. Growth would have remained confined to an even narrower segment of the ruling elite and the trickle-down effect would have been rather slow or non-existent.

As discussed in Chapter III, this strategy led to a growing crisis from the 1970s itself. Amongst other factors, the black economy in India played a central role (Kumar, 1999). It prevented mobilisation of resources by driving them underground or abroad through flight of capital. This undermined planning in several ways. First, it made policies fail through mis-governance and misallocations. Secondly, it created a shortage of resources by diverting them to non-essential uses and to unproductive activities. Thirdly, it increased the quantum of waste in society so that less was available for investment. Finally, the data for various macro variables used for the planning exercise are distorted so that the calculations based on them are faulty. For instance, the correct input-output ratios or the incremental capital-output ratios are not available (Kumar, 2006c) for the planning exercise.

The elitist leadership attempting to achieve Western modernisation chose targets that were elitist. For instance, its goal was not to rapidly transform agriculture through overcoming the deficiencies of investment resulting from colonial rule and on which the bulk of the Indian population was still dependent at the time of independence. Instead, the focus was on heavy industrialisation and for that resources had to be drawn from agriculture — a strategy not very different from the colonisers who extracted surplus from agriculture; the difference was that they took it outside the country. Thus, even after independence, agriculture did not stabilise and the rural population did not have the resources to cope with any crisis.

The crisis in the mid-1960s in agriculture led to a bigger crisis in the economy and the dilution of the planning process as it seemed to fail. Rather than reinforce it by altering priorities it was slowly given up starting in 1967 with plan holidays. While formally planning continues even now, it is merely formal. The process of planning is ex-ante while from the 1970s it turned into an ex-post exercise lacking in an overall vision. It became a collection of goals and expenditures. Ministries became more powerful and did what they wished to rather than fit into an overall structure based on the larger goals of the plan. The failure of the plans to achieve goals, like elimination of poverty, resulted in the idea of formulating a rolling plan during the Janata regime. While, in principle, there is nothing wrong in this since course correction is a part of any plan process, in practice it meant having no

overall goal and leaving it to adjust to the market processes. In the post-1991 phase, with markets in full command plans became merely indicative — thus mostly ex-post. In effect, at the end of the five-year period whatever happened became the plan.

For instance, if the markets lead to greater investment in certain non-priority areas, then the plan has to adjust to that turn of events. If investment becomes more capital intensive and unemployment rises leading to dichotomous growth then the plan, rather than correcting this basic tendency of the market, can only argue for inclusive growth (as is the case with the current plan) and talk of amelioration of the pain of the marginalised sections. There is hardly an attempt towards holistic growth that does not exclude or create unemployment by guiding the pattern of investment.

The confused thinking of the ruling elite that diluted the planning process from the mid-1960s itself starting with the plan holidays and subsequently weakening its ex-ante character has resulted in growing problems for the marginalised sections. The planning models adopted from the 1980s onwards further marginalised the concerns of the marginalised sections by focusing on the interests of the ruling elite. The idea that a plan could change the basic direction the economy was given up in favour of status quo of the vested interests. Big business and the affluent sections became increasingly dominant and they focused more on the process of marketisation which actually stood in opposition to planning. Optimality in the use of resources was not a direct concern for the market-oriented economy. Giving up of the idea that optimisation of the use of resources was feasible, made manipulation of policies for narrow gains acceptable.

Every industry optimises its activities within a narrow framework but it does not give it up when difficulties arise. It alters the parameters within which it carries out its optimisation. Does the business class not understand this or is it that they want to use the markets to generate higher profits for themselves to the exclusion of all other consideration? But, the optimisation exercise also leads to higher profits because it involves a positive sum game. The capitalists seem to want higher profits whatever happens to others. Perhaps they had got used to increasing their profits through the black economy, giving little importance to national interests. Further, they came under increasing influence of the US and international capital, which did not like the planning process because that gives power to the state. Once that happens then international finance capital is unable to get the concessions that it wants. Once again, the Indian ruling elite, not able to articulate its own interest, clearly fell for what the international forces wanted and, thus, damaged its own interests.

After 1980, as the economy was opened up to consumerism, raising resources for development became more difficult. This also diluted the idea of

achieving collective good. Thus, even though there were plans, they faltered more as targets were missed. For instance, the Eighth Plan was to achieve a target of setting up of 50,000 Mw of power. This was lowered to 38,000 Mw, which too was split up between the public and private sectors. But by the end the Plan, the latter had set up no new capacity while the former achieved only 15,000 Mw of capacity so that only 30% of the original target was achieved. This created a long-term shortage of power generation in the country with consequent loss of production.

The basic problem is that while public sector investments can be guided, there is no easy way that private sector investments can be channelled since that depend on profitability, which is always uncertain. If unproductive activities are more profitable, investments would go there. To get investments to productive / essential areas they would have to be assured of high profitability. This requires concessions and loss of resources from the budget, which then tends to undermine the public sector investment plans. It is argued that in an economy, which is predominantly private sector, ". . . planning is a day dream, for the governments concerned do not, in fact, have sufficient control over resources to carry plans into effect". Further, "The planners . . . in a state of confusion . . . imitate the achievements of a planned economy while operating with the theory that accumulation depends upon private saving". (Robinson, 1978:12).

From 1991, as the NEP gained momentum and marketisation of the economy proceeded apace, what Robinson argues became increasingly clear. Quoting Kornai, "Economy wide planning models . . . determine numerical, quantitative development targets in these areas. . . . these models rarely specify how these goals and targets are to be realised. . . .This kind of 'planning' is merely an amusement for theoretical economists." (Robinson, 1978: 12)

As disparities have accentuated since 1991, it has become increasingly clear that for the poor, the government is the only solution. Thus, the Midday meal, Sarva Shiksha Abhiyan, National Rural Employment Guarantee and Loan Waiver Schemes had to be launched to cater to the needs of the poor. These should have been a part of properly laid out plans to achieve goals instead of being *ad hoc* schemes, which tend to be far less effective than they could have been if they were thought out in time. Further, there is lack of consensus on them, especially from the elite circles. As a result, there has been grudging support for these schemes amongst the policy makers. There are reports of corruption undermining these schemes, a sure way of dumping them over time on the plea that they are inefficient. For instance, it is argued that these be replaced with vouchers, which would help the markets and the private sector but it is not taken into account that there would be even more corruption in the distribution of these vouchers.

Equity is a key casualty in the shift from planning to markets. This has become starkly clear in the first decade of the 21st century with growing revolt and violence, resulting in pressures on the government to go for inclusive growth and planning — the goal of the Eleventh Plan. But with the private sector dominating and the resources with the public sector being limited, this is an impossible goal and perhaps little more than a slogan. Consider, if the corporate sector gets 80 per cent of all investments and continues to deploy increasingly capital intensive technology, employment generation is bound to lag behind and there is little that the rest of the economy or the public sector can do to counter this trend. A plan to allocate resources to production based on different levels of technology in different sectors would be necessary to create adequate employment. This is not possible without an overall plan.

In brief, after the initial decades there have been plans without planning, thus, undermining the entire process and giving it a bad name. After 1991, with marketisation the role of planning declined further. Thus, due to lack of clarity among the ruling elite the public sector in India has floundered and rather than serve its designated role it became their hand maiden to largely achieve modernisation based on the trickle-down effect so that the interests of the marginalised sections became incidental. Thus, planning and public sector, which could have been powerful instruments of rapid development for an underdeveloped economy, have only played limited roles.

6. Financial Sector and Its Development

6.1 Theoretical Considerations Regarding the Financial Sector in India since the 1950s

Money in a capitalist society plays an increasingly important role. It is the basis of the financial system which helps to carry on production and distribution in the economy. There are two dominant views prevailing about how money works in a capitalist economy, the Keynesian and the Monetarist. The Keynesian view is that money is central to the capitalist system because it takes care of uncertainty. It links the present to the future. This is captured in the liquidity preference curve which presents the trade off between holding money instead of bonds to take advantage of changes in the future. So even though Keynesians have been accused of doing away with money in their theories by dividing macro variables by the money wage, in reality, money is central to their theories. Division by the money wage only acts as the numeraire, the unit in which all macro variables are measured so that their real value can be taken into account.

In the monetarist view even though money appears to be central to the theory, it is actually not so. Money supply is only supposed to affect the price level and not any real variables as in the case of Keynesian theories. All real variables are determined at full employment which is supposed to be automatically achieved (if there are no rigidities). Thus, the real variables are supposedly determined by long-term factors like, technology. The role of the banks and the financial system is accordingly different in the Monetarists' and the Keynesian views.

In the Keynesian view, banks perform the role of financial intermediation to facilitate production. They are the link between the savers and the investors. The households are the savers and the firms the investors. Thus, the smooth transfer of funds from the savers to the investors occurs through the financial system of the economy and it is demand for funds from the producers that determines the amount of money supply in the economy. In the Monetarist view it is the opposite. The banking system creates the money supply through the money multiplier so that if government intervention takes place and more money is created then that is supposed to fuel demand which leads to changes in the price level in the economy. In the Keynesian view the velocity of circulation of money changes because of the speculative motive for holding money. But in the Monetarist view the velocity of circulation is assumed to be determined by the transaction velocity alone — money is only for transactions purpose.

The interest rate structure in the economy is set by the basic rates announced by the Central bank and the returns available on government securities. Other financial instruments pay higher returns based on the perception of risk and liquidity associated with them. For instance, in the recent international economic crisis, due to erosion of trust, the risk premium rose and the interest rates remained high in spite of the cut in rates by the Central banks. In the Indian context, because of government's need to borrow resources for meeting its budgetary needs, it has had to offer high returns (directly and also indirectly through tax concessions) so that the economy has had a structure of high interest rates since the 1970s. This requires profit rates in the economy to be high and implies both a skewed distribution in favour of profits and a lower than feasible investment rate.

Whichever theoretical view is taken, the financial sector transfers resources from the wider public to the businesses. The banking sector, for instance, collects the savings of the individuals and makes them available to the businesses for their operations and thereby helps them enhance their hold over the capital of the economy. Since the return from their businesses is usually much higher than what the savers get, over time they accumulate capital while the savers find their wealth growing much slower. This

becomes a source of growing disparities. The same argument holds for say, the capital markets and other financial instruments.

There is another problem that policy making faces, namely the impact of the rapid growth of the services sector and its impact on the velocity of circulation of money. Services sector involves far more transactions than the primary sector so that as the weight shifts from the latter to the former, the amount of transactions in the economy increases faster than incomes do so that the transactions and the incomes velocities move in opposite directions (Shukla, 1996) — in fact, while the incomes velocity is falling, the transactions velocity is rising. This has serious implications for monetary policies. The Monetarist equation used in analysis is basically based on transactions and to convert it to incomes, it needs a fixed relationship between incomes and transactions. The changing ratio between transactions and incomes results in problems that are not at all dealt with in much of monetary analysis.

In the world of finance, there seem to be increasing returns to scale. Those with access to big finance due to their position in the world of finance grow even larger and manage to dictate terms to others. By moving funds around and doing leveraging, the owners of finance are able to show high rates of returns and thereby are able to attract funds from others (Kumar, 2009). Thus, the financial sector leads to concentration of resources in few hands and helps create monopolies. Those who operate at the margins of the financial markets, such as the small scale sector, farmers, small traders and so on constantly face difficulties in raising finance and carrying on production. They often depend on informal money markets where the interest rates are much higher and that erodes their profitability.

Modernisation of the financial sector has meant the creation of near money forms, such as credit cards and electronic money. This is also changing the monetary practices in the economy and affecting the various parameters of monetary policy making.

The above theoretical picture of the financial system is distorted by the existence of a growing and large black economy in India. The black economy is over and above the white economy so that the liquidity released by the Reserve Bank of India and the commercial banks has to circulate the activities (transactions, etc.) in the black economy also. Hence, the velocity of circulation of money turns out to be larger than that determined on the basis of the existence of the white economy alone. Similarly due to a large amount of speculative activity in the black economy, the velocity of circulation in this part of the economy fluctuates much more than in the case of the white economy. Thus, the stability properties of the money supply turn out to be different than when the black economy is also taken into account. Similarly, due to smuggling, flight of capital and hawala transactions, there are foreign exchange inflow and outflow that take place without the RBI

being involved. Consequently, while the money supply is not affected, transactions are. Hence, the velocity of circulation and the money multiplier calculated without taking these factors into account are seriously flawed. None of these aspects are captured in the RBI's monetary policy and, therefore, they are faulty. For instance, when there is a shortage of funds due to tightening of credit, funds can flow in through the informal money markets and the black liquidity available there. All this can undo RBI's policy and whatever it attempts becomes less effective.

This brings into focus the fact that India's financial structure is divided between a formal and an informal part. The Reserve Bank of India and its policies directly impact only the formal sector and not the totality and, therefore, only meet with partial success. Some have suggested that changes in one part affect the other also but whether this is a stable relationship or not is unclear. Even though the formal sector has expanded and the weight of the informal sector may have come down but because of the presence of the growing black economy and large amount of lending from it, the presence of the informal sector in the economy remains very substantial and cannot be ignored. It is unfortunate that the RBI does not publish the studies it conducts from time to time on illegal markets existing in India and abroad and their impact on the monetary sector in India. This makes it difficult for analysts to do a proper analysis of the financial sector and much is left to guesswork.

6.2 Monetary and Financial Policies before 1991

At the time of independence, a large part of the banking sector (most of the financial system) was in the hands of private sector and they used it for their investment needs (RBI, 2008). This led to the concentration of resources in the hands of a few business houses. These banks were highly profitable and since that was the only criteria for setting up branches, banking hardly spread to the rural and semi-rural areas where small accounts could not generate much of a profit. Thus, a large part of the rural population was forced to depend on local money lenders and the zamindars who charged high interest rates. This led to the continued (from the colonial times) draining of the surplus from agriculture and its inability to finance investment in agriculture and related activities. This was a serious cause of the continuing backwardness of Indian agriculture. It is only after the mid-1960s with the initiation of the green revolution strategy which required capital that the government forced the spread of the banking system into the rural and semi-rural areas.

In 1969, partly due to the party politics in the Congress party and partly due to the needs of green revolution, major banks were nationalised. Freed from the criterion of profits for opening new branches, there was a massive

expansion of bank branches to the rural and the semi-rural areas (*see* Table 3.4). However, this did not eliminate the money lenders who traditionally have had control over the small and marginal and the middle farmers. Partly this was also the result of the corruption in the banking system which prevented easy access to credit to the farmers. The formal system also found it difficult to process applications for small loans and then to recover them if there was default whereas the local money lenders had worked out a system by which they could take care of default. They had the flexibility to take over assets or recover in kind or even get free labour in return.

The nationalisation of the banking system led to the creation of the priority sector lending from banks to other sectors, like the small scale sector or to backward areas. With growing intervention by the state, interest rates were administered and priority sector lending was at concessional rates of interest.

Long-term lending institutions were set up to provide cheap credit to the industrial sector. IDBI, IFCI and other such institutions gave loans for setting up of new industries. While these institutions gave loans to large industries, SIDBI was set up to give loans to the small scale industries and NABARD set up to facilitate cheap credit to the agricultural sector. State level banks and cooperative credit societies were also set up to facilitate credit to the rural areas. Thus, an institutional framework was created after independence to enable the credit needs of (theoretically, even small) producers to be met. The monopoly of the business houses over the financial system was broken but concentration of resource in their hands through the financial system continued.

Due to the growing monetisation of the economy there was growing demand for money which had to be met by the Reserve Bank of India. For instance, over time, the farmers sold a larger percentage of their output in the markets so that they could meet more of their non-agricultural needs. Further, in agriculture increasingly wages were paid in cash rather than in kind. In the non-agricultural sector the trend of paying wages and salaries directly into the bank account of the employees rather than in cash caught on.

The Reserve Bank of India used two important instruments to affect changes in money supply in the economy, namely the statutory liquidity ratio (SLR) and the cash reserve ratio (CRR). In addition, there were credit controls to check the flow of credit in the economy — specific credit controls and general credit control. It was found that the general credit controls were more effective than the specific credit controls because money is fungible and can be always diverted from one activity to another where credit is tightened.

The role of the stock markets in raising capital for businesses was rather limited up to the 1970s and very few individuals invested in it. Even now, in spite of the massive expansion of the stock markets, only a few per cent of the population invests in these markets. It was only in 1964, with the

creation of UTI that the general public started getting involved in the stock markets, even if indirectly. In the mid-1970s this culture received a further boost with the promulgation of FERA which forced a large number of MNCs to dilute their equity at relatively low prices to the Indian public. Further, the emergence of Reliance and its innovations led to increased participation of the general public in the equity markets.

However, the bulk of the capital raised by industries came from the various financial institutions which gave liberal credit. Further, the government owned financial institutions, like LIC, were asked to hold large chunks of equity in the private sector companies. It enabled big business to hold a small per cent of equity in their own companies since the institutions held the majority and were not interested in rocking the boat so no one else could challenge the management. For instance, Tatas held their companies with barely 2-3% of equity holding and in 1983 the Shrirams and owners of Escorts were found to have less than 1 per cent of the equity in their companies. Of course, it is also true that equity was held indirectly through business associates, friends, investment companies and relatives. But on the whole the owners were comfortable with the public sector financial institutions holding more than 51% equity in their firms. This was based on the close relationship between the government and the big business.

The stock markets were characterised by a lot of irregularities and all through insider trading has been rampant. Thus there were repeated booms and busts through which the small investors lost a lot of money. There were repeated cases of manipulation of the price of equity of companies — for instance, an impression of profitability was created initially in the minds of the small investors so that they would buy the equity and later on the price would be made to fall so that the owner could buy the equity cheap when the small investors panicked and sold (Kumar, 1999).

The government regulated the price at which equity could be floated in the stock markets through the Controller of Capital Issues (CCI). However, manipulation was possible there also. Corruption played a part. Further, the black economy was increasingly linked to big business and its manipulation in the stock markets. As will be discussed in Chapter VIII, a large part of the profit of business was off the balance sheet. Thus, an owner held a company more for the black profit he could make than for the white profit shown on the balance sheet. That is why the owners have been loath to give up control over their companies. This came out very clearly in 1983 when Swaraj Paul tried to take over DCM and Escorts and promised much higher dividends than these companies were declaring. The owners thwarted this take over using political pressure and public opinion.

The government also used the financial sector to raise resources through what it called small savings instruments, such as the PPF, Post Office

Savings, National Savings Certificates, and so on. This played an increasingly important role after 1980-81 when the budget started showing revenue deficit and the borrowing had to increase rapidly. To get these resources, the government offered large tax concessions and high rates of returns so that in some cases the post-tax rate of return could be higher than even 100%. This adversely affected tax collections of the government and led to the revenue deficit a vicious circle ensued.

However, this had a more dramatic effect on the financial sector through the impact on the general rates of return in the economy. If the government offers high rates on what are considered to be secured financial instruments then the private sector would have to offer even higher rates of returns to attract funds. Thus, the entire structure of rates of return in the economy moved up leading to an increase in the cost of borrowing and this raised the cost to business and slowed down investments.

In the Indian economy real estate has had a special status because people hold it as a safety device against inflation and uncertainty. However, it constitutes unproductive investments but is preferred due to the high premia they enjoy and make up a large part of the portfolio of assets of the savers. The high prices of real estate also increase the investment required in real assets and thereby slow down economic activity. Real estate which is always in limited supply but demand for which has been high due to speculation has shown a high rate of price increase and, therefore, there has been a vicious cycle of rising prices and growing demand (Kumar, 1987b).

Similarly, the demand for gold has also been high. Its supply has been short because there is no production in the country and it is imported from abroad and even smuggled in. As the investment in these unproductive assets became more profitable, investment into the real economy slowed down and the government had to counter this by making cheap credit available to business through administered price mechanism. In spite of successes, it can be said that the government could not effectively harness the financial system for national development in spite of repeated attempts — a kind of helplessness pervaded the system.

6.3 Post-1991 Financial Sector Policies

With the launch of New Economic Policies there was a strategic retreat of the state and marketisation. This affected the policies towards the financial sector also. Narasimham Committee was set up to initiate this policy shift and it followed the lines suggested by the World Bank Report on the financial sector reform which was prepared in 1989.

The RBI was supposed to play an increasingly independent role and set its policies on its own, based on the market conditions, namely in the foreign

exchange markets and based on inflation. Following the monetarist prescription, the RBI was to set credit policies so as to keep inflation under check. The private banks and other financial institutions were given an important role. The MNC banks were allowed to operate more freely. The role of the stock markets became far more important and the success and the failure of policies were supposed to be judged by their impact on the stock markets, like, after the presentation of the budget (*see* Chapter III, Section 6). The public sector banks were told that they had to operate profitably and the non-operating assets that they had because of the unpaid loans that they had given in the pre-1991 phase (due to government's policies) were to be liquidated and capital adequacy norm were put into place so that these banks could be listed in the stock markets. The profitability criteria imposed on the public sector banks meant that they had to close their unprofitable branches in the rural and the semi-rural areas and open more commercial branches in the urban areas (*see* Table 3.4). This reversed the trend initiated in 1969. Many new instruments were introduced in the financial markets, like, the participatory notes (PN) in the stock markets and derivatives and increasingly funds were raised through private equity. SEBI was set up to regulate the stock markets.

The government lowered CRR and SLR after the launch of NEP to make more funds available to the private sector. It was implicitly believed that the availability of resources to the public sector was crowding out private investment so that the lowering of the SLR would enable the private sector to draw more funds. With the New Economic Policies the priority sector and the rural areas have faced difficulty in availability of credit. The focus has shifted to the large scale sector and big business. There was a move to improve the competitiveness of the banks by going in for mergers of banks.

The financial system became segregated with the more profitable parts working at high margins and providing good services to the elite and the less profitable public sector, working at lower margins and providing indifferent services to the common man. This became true both in banking and insurance where the private sector had rapidly grown.

The ATM network spread rapidly leading to automation and reduced employment. Banks rapidly introduced automation of other services as well. As a result, while business expanded enormously, employment remained unchanged, or even declined. The capital labour ratio of the financial sector rose very rapidly in the post-1991 phase leading to jobless growth.

Since the late 1990s, the base interest rate and with that the structure of interest rates came down. This was a result of the shift of national income in favour of the corporate sector and the decline in the role of the government. The corporate sector generated large amounts of cash and its borrowing needs declined. This was further accelerated by the opening of the credit

markets so that the corporates could borrow cheaper from the global markets where the rates were typically far lower than in India. Further, as the inflow of capital through the FII and the FDI route accelerated after 1997, there was an impact on the money supply and there was a problem of plenty. To sanitise this increasing money supply, the RBI floated bonds.

In the stock markets because of the signal by the government that it would allow takeovers, the managements started holding larger and larger equity in their own companies. For instance, Tatas who used to operate with 2-3% of equity moved to 8% to 15% and finally to 26%. In the case of Reliance the holding grew to more than 51% and that became the case with many other companies. Flow of funds from foreign institutional investments (FII) and FDI increasingly took on a more important role after the mid-1990s. However, the flip side was the black funds coming through these channels which had earlier been stashed abroad by Indian businesses. The danger also is that possibly criminal and terrorist funds have flowed in.

A lot of manipulation went on by the corporates, say, by the Reliance group with new companies being floated and merged with each other, leaving the small investors confused. In the post-liberalisation phase because of the shortage of floating liquidity, since the managements and FIIs increased their share holdings, the stock markets went up sharply. The result was a speculative environment which trapped many small investors who lost substantially. This was consistent with the new philosophy of "growth at any cost" which allows making money by any means, legitimate or illegitimate.

A large number of scams started emerging in the financial sector as a result of the environment of free play allowed to the private financial interests. The free flow of funds from the private sector and corporations and the pressure from the government to get the stock markets to rise resulted in more problems in the financial sector. A large number of companies disappeared soon after floating their equity and the public lost money. There was the Harshad Mehta scam, dotcom boom, Ketan Parikh scam, timber companies scam and marble and granite companies scam. The markets went up and down sharply.

The Indian financial markets came out largely unscathed during the global financial crash of 2008. This was on account of the relatively protected and regulated status of the Indian financial markets. The government could not deregulate rapidly due to the pressure of the trade unions and the left opinion in the country. The pressure for opening of insurance and banks from the MNCs and corporates has been high but it has been resisted. Fortunately for India, the opening of this sector under WTO had not yet been agreed to so that the pressure though large was not sufficient to open the sector completely.

NEP led to more independence for the governor of the Reserve Bank of India from the Finance Ministry. This is perhaps in keeping with the growing dominance of finance over the real economy. Monetary policies have become more and more dominant over the policies for the real economy and often dictate what they have to be. The situation is not completely polarised as it is made out to be. Given the close relationship between the central bank and the government the world over, as was shown recently during the financial crisis (whether in the USA, Britain or India), the central banks the world over (including RBI in India) played ball with the Ministry of Finance and kept on releasing more and more liquidity into the market which a completely independent central bank may not have. The loan waiver scheme for farmers announced in 2008 is another example of the government's ability to influence monetary policies. However, where it suits the world of finance there the independence of the central bank is asserted.

The financial sector has promoted speculative activity and government's diktat to the financial institutions to promote the stock markets has led to successful speculation. With high returns available in these markets, there have been periods when real investments offering lower interests and especially in agriculture and small scale sectors, have suffered. This has adverse effect on distribution and growth.

In brief, the Indian financial markets went from a very backward and underdeveloped structure to a modern one. It modernised considerably compared to what it was in 1947 but continue to lag behind the financial structures of the advanced nations. But for an interregnum when the banking system was largely nationalised and credit became available to those areas and sectors where it was earlier not available, it has led to greater concentration of resources in the hands of a few, resulting in growing disparities. The financial markets helped to concentrate resources in a few hands all through the period since independence. This was further aggravated by the growing black economy.

7. Conclusion

Just like there is a theory of semi-feudalism which suggests that there is only part feudalism, in modern day India there is semi-capitalism which is only part capitalism. For efficient capitalism, good education and skills are important. Planning and public sector are useful devices especially if the economy is backward as it is in India. Greater equity is important to create a market but this has been thwarted by the narrow and self centred attitude of the ruling elite seeking to corner gains as rapidly as possible through the primitive accumulation of capital without looking at the long run. This increased the marginalisation of the marginal in various ways, including fiscal

policies, financial markets, misuse of the public sector and downgrading of the planning process.

The ruling elite aired their theories for self justification which spoke of trickle down so that they need not feel guilty about rising inequity. It is suggested by the trickle down theories that labour from the backward sectors will be pulled up over time. Only patience is necessary. No sacrifice need be made by the well-off. Planning models were used that emphasised investment and not employment — again promoting trickle down. Fiscal policies have been put into place that give largely to the rich and marginalise the rest. Financial policies that concentrate resources in the hands of the rich and large scale and marginalise the rest have been put in place since independence. Resources are allowed to flow from savers to the investors and through concessions they are assured of high returns. Technology policy that helps the large scale increase its margins and control over the economy is encouraged in the name of international competitiveness. This kind of technology encouraged concentrated urbanisation which requires massive resources thereby starving the rural areas and creating a big urban-rural divide, accentuating migration and urbanisation thereby resulting in a vicious cycle.

Consumerism has been encouraged to generate demand for the private sector. While there is no resource shortage for basic development, consumerism makes it appear that the economy has a resource shortage and even for the poor. It also helps divert attention from important issues. Planning which was started as an optimisation exercise got slowly downgraded. The process of marketisation has been allowed to undermine it. In trying to serve its narrow interest, the elite has not understood that the issue is marketisation and not market and that the dichotomy of state *versus* markets and opening *versus* closing the economy is false. Public sector, an instrument more to support the private sector than an aid to socialistic policies has been made ineffectual and is being dismantled. The process of one way globalisation which opens the doors to MNCs has been initiated without a nuanced approach based on India's own interests. The implication of all these policy developments is that the ruling elite continues with its disrupted consciousness from colonial times and is hardly thinking independently for itself in its drive to achieve Western modernity.

Chapter VI

Structural Changes in the Indian Economy

1. Introduction: A Complex Economy

Indian economy has a structure far more complex than that of other economies. Of course, as compared to the smaller more homogenous countries (such as Thailand or Belgium) it is more complex but this is true even when compared to the bigger economies (say, China or USA). This unsurpassed complexity is not just due to its size but also due to historical reasons and the diversity of the country. Language, food habits and clothing change every hundred kilometres. Due to historical reasons, varying economic structures co-exist simultaneously (tribal to feudal to capitalist forms). Further, the economic structures change across space as one moves from one state to another — India is like all of Europe put together and more. Hence, Indian economy is unlike any other in the world. The differences across income classes and the variations in technology in use across various categories are vast. Little wonder then that it requires a different kind of theorising and understanding than in the case of other economies so that copying from other successful countries is unlikely to work — it requires a unique model.

India has changed rapidly since independence but that is also true of many other developing economies in the last sixty years. In India's case, rapid change coupled with its diversity has only added to the complexity and the problems that the nation faces. When this is coupled with the crisis of leadership and its vision (*see* Chapter IV), the problems become even more daunting. No wonder, India is at times characterised as a functioning anarchy.

Due to the complexity, an economic analysis of India cannot be based on simple available analytical categories as has been the case with, say, European societies that have been called capitalist or feudal. Unfortunately, much of the economic analysis is based on these categories and this is sought to be applied to the Indian context as well but it misses the complexity of the Indian situation. The problem cannot be resolved by using a mix of the categories since the need is to evolve newer categories to understand the Indian reality.

However, it is true that due to the process of one-way globalisation (*see* Chapter VII) going on in India since before 1947, economic structures are becoming increasingly capitalist in nature. But what they are transiting from is not easy to categorise. In the traditional sectors, there is a large amount of

self-employment, which does not fit into any simple available mould of analysis. In different regions of the country there are different mixes of the different kinds of production structures since they have had different starting points and have experienced varying rates of change.

2. Workers in the Indian Economy

One of the most important structural changes has been the shift from a dominant agricultural economy at the time of independence to the domination of services today (*see* Graph 3.4) while in terms of employment agriculture remains the dominant employer by far (Tables 6.1 and 6.2). This is in contrast to the situation prevailing in other Asian nations (Table 6.3).

Table 6.1

Estimates of Workers by Economic Activity and Sector (Million)

Economic Activity	*1999-2000*			*2004-05*		
	Unorganised	*Organised*	*Total*	*Unorganised*	*Organised*	*Total*
Agriculture	232.21	5.47	237.67	252.83	6.09	258.93
	(97.70)	(2.30)	(100)	(97.65)	(2.35)	(100)
Industry	44.81	20.08	64.89	60.35	25.38	85.73
	(69.05)	(30.95)	(100)	(70.40)	(29.60)	(100)
Services	65.62	28.57	94.20	81.72	31.09	112.81
	(69.97)	(30.33)	(100)	(72.44)	(27.56)	(100)
Total	342.64	54.12	396.76	394.90	62.57	457.46
	(86.36)	(13.64)	(100)	(86.32)	(13.68)	(100)

(Source: NSSO 55th (1999-2000) & 61st (2004-05) Round Survey on Employment / Unemployment.)

Figures in brackets are % share.

Table 6.2

Employment Share of Major Sectors 1951 to 2005

(%)

Sectors / Years	*1951*	*1961*	*1971*	*1983*	*1994*	*2000*	*2005*
Agriculture	74.5	76.2	73.9	69	64.7	59.9	52.6
Mining & Quarrying	0.4	0.5	0.4	0.6	0.7	0.6	0.6
Manufacturing	8.2	8.6	8.8	11	10.5	11	13
Services	16.8	14.7	16.9	20.4	24.3	28.5	33.3
Elect, Gas and Water	0.4	0.3	0.2	0.3	0.4	0.3	0.3
Construction	1.1	1.3	1.9	2.2	3.2	4.4	5.6
Trade	5.2	4.1	5.1	6.3	7.4	9.4	12.6
Transport & Storage	1.5	1.6	1.8	2.6	2.8	3.7	4.6
Others	8.5	7.4	7.9	9	10.5	10.8	9.2

(Source: Various Five Year Plan Documents and NSSO Various Rounds.)

Table 6.3

Share of Employment by Economic Activity Across Asian Nations (2002)

Country	*Agriculture*	*Industry*	*Services*
China	49.80	23.50	26.70
Indonesia	55.50	14.00	31.00
Thailand	49.00	18.50	32.50
Philippines	35.00	15.00	50.00
Malaysia	17.50	31.50	51.00
Korea Rep.	10.50	26.50	55.50
Pakistan	58.50	14.50	27.00
India	**57.00**	**21.00**	**22.00**

Source: Rangarajan (2006)

Employment is divided between a small organised sector with higher wages and the overwhelmingly large unorganised sector where wages are much lower. Workers in India are a hugely divided lot. The wage differentials have led to a kind of labour aristocracy. The privileged organised sector workers have developed an economistic thinking and have largely been indifferent to the plight of others. The unorganised sector workers have no trade unions that can fight for them, say, to protect their real wages. They are at the mercy of the employers, like in the rural areas where minimum wages are not paid except when there are labour shortages. Due to widespread illiteracy and poor quality of education, most unorganised sector workers have poor skills and low productivity.

As a result of technological changes leading to jobless growth in the modern sectors, especially after 1991 [Tables 6.4(a) & 6.4(b)], most of the workers are stuck in the informal sectors (Table 6.5) with low productivity and working at low wages. This has resulted in a large reserve army of labour, which prevents wages from moving up. Only in the advanced sectors and in those parts where there is a worldwide shortage of skilled manpower, have the wages moved up. In such sectors, there has been a brain drain with the government encouraging talent to go out.

In effect, parts of the Indian education system have become a conduit to feed cheap skilled labour to the advanced countries, which save on the cost of training that is high in their own economies. India loses a dynamic component of its work force and, therefore, suffers. This also results in diversion of resources to training these skilled people (in IITs, IIMs and such like) and to exert pressure for all round privatisation of higher education.

Table 6.4(a)

Growth in Output and Employment and Elasticity by Sector in India, 1983-84 to 1999-2000

	GDP		*Employment*		*Labour Productivity*		*Elasticity of employment relative to GDP*	
	1983/84-1993/94	*1993/94-1999/00*	*1983/84-1993/94*	*1993/94-1999/00*	*1983/84-1993/4*	*1993/94-1999/00*	*1983/84-1993/94*	*1993/94-1999/00*
Agriculture	3.08	3.14	1.39	0.05	1.38	3.04	0.48	0.01
Mining & quarrying	7.28	4.61	3.95	-2.78	1.97	7.68	0.61	-0.49
Manufacturing	6.13	7.40	2.17	1.80	3.60	5.88	0.32	0.20
Utilities	8.97	6.76	4.56	-4.77	3.45	12.18	0.48	-0.52
Construction	5.52	6.26	5.60	6.36	-0.96	-0.01	1.27	1.00
Trade	5.55	9.06	3.84	3.99	1.49	5.00	0.67	0.38
Transport, storage communication	5.94	8.62	3.53	5.31	2.30	3.24	0.55	0.56
Finance, insurance and real estate	10.14	9.47	5.71	6.07	3.87	2.25	0.49	0.68
Community, social & personal services	5.86	8.61	3.69	0.21	1.74	8.19	0.63	0.02
All sectors	**5.37**	**6.64**	**2.06**	**1.02**	**2.95**	**5.60**	**0.36**	**0.13**

(Source: ILO, Global Employment Trend Report, 2003.)

Table 6.4(b)

Share of Workers by Economic Activity (%) and Growth Rate 1999-2004

Economic Activity	*1999-2000*			*2004-05*			*Empl. Gr. Rates between 1999-2000 and 2004-05*		
	Unorg.	*Org.*	*Total*	*Unorg.*	*Org.*	*Total*	*Unorg.*	*Org*	*Total*
Agri.	67.77	10.01	59.90	64.02	9.74	56.60	1.72	2.20	1.73
Industry	13.08	37.10	16.36	15.28	40.57	18.74	6.13	4.79	5.73
Services	19.15	52.79	23.74	20.69	49.69	24.66	4.48	1.70	3.67
Total	100	100	100	100	100	100	2.88	2.94	2.89

(Source: NSSO 55th (1999-2000) & 61st (2004-05) Round Survey on Employment / Unemployment.)

Organised sector workers are often divided along caste and community lines so that it is difficult for them to also get together under umbrella trade unions that cut across industries. There is a multiplicity of trade unions even for the small organised sector work force. They are divided along (political) party lines to support their agendas and their principal purpose deviates from

Table 6.5

Percentage Share of Unorganised Sector Workers in Top 12 Activities, 2004-05 (Per cent)

S. No.	*Industry*	*Percentage Share*		
		Rural	*Urban*	*Total*
1.	Agriculture, Hunting & Forestry	77.30	11.60	64.02
2.	Retail trade (Except motor vehicles & motor cycle, repair of personal & household goods)	5.04	23.04	8.68
3.	Construction	4.05	8.64	4.98
4.	Land Transport	2.11	7.79	3.26
5.	Manufacturing of Textiles	1.20	4.59	1.89
6.	Manufacturing of wearing apparels, dressing & dyeing of fur	1.01	4.02	1.61
7.	Other community, Social and personal service activities	1.01	2.90	1.39
8.	Hotel and Restaurants	0.72	3.79	1.34
9.	Manufacturing of wood and products of wood and cork except furniture	1.23	1.44	1.27
10.	Private household with employed persons	0.44	4.15	1.19
11.	Wholesale trade and commission trade except motor vehicles and motor cycle	0.48	4.05	1.20
12.	Manuf. of food products and beverages	0.79	2.02	1.04
	Total	95.38	78.04	94.87

Source: NSSO 61st (2004-05) Round Survey on Employment / Unemployment.

the support of the workers' causes. In many industries, the owners have co-opted the workers' leadership (much like they have corrupted the political leadership) so as to be able to manipulate them. In fact, the public image of the trade union leadership is not very positive. The state has more often than not supported the business classes so that the dice is loaded against the workers. Since 1991, the courts have also changed their stance and largely supported businesses so that the gains of the workers movements have been whittled down and this has further demoralised the workers, even in the organised sector.

Growing mobility of capital has led to its rising clout and weakening of labour. Such mobility is the combined result of the growth of the black economy, flight of capital, opportunities afforded by marketisation and opening up of the economy. These have enabled capital to demand greater concessions from the state and one of them has been to discipline labour. Where labour consciousness and militancy have been high, capital has moved to other regions. West Bengal with highly organised workers not only faced a lack of investment but also a flight of capital in the 1950s and

1960s. As labour militancy increased in Mumbai, capital sought other avenues. Kerala, with a highly educated work force, has been starved of investments because of the Left influence in that state.

All these factors have come in the way of the development of a working class consciousness. No wonder, workers have not been able to put together an alternative economic vision for the country. The agenda for the country has been largely set by the business groups who have banded together under powerful associations, such as FICCI, CII, ASSOCHAM and PHDCCI, among others.

2.1 The Marginalised Workers: Dalits, Women and Children

The prevailing caste divide has meant that the plight of the Dalits has been worse than that of other workers (Tables 6.6 to 6.9). Traditionally, there has been untouchability in India and this has coloured the attitude of even the working classes. The deep-seated prejudices are weakening in the urban areas due to the anonymity they afford but it is still strong in the country as a whole. While the lot of the Dalits has improved with the rise in literacy and reservations helping some to rise up the ladder, there is a long way still to go to attain equality.

Table 6.6

Land Cultivated by SC, ST and non SC / ST

Size in (hectare)	*SC*				*ST*				*OBC**		*OTHERS***			
	1987-1988	*1993-1994*	*1999-2000*	*2004-2005*	*1987-1988*	*1993-1994*	*1999-2000*	*2004-2005*	*1999-2000*	*2004-2005*	*1987-1988*	*1993-1994*	*1999-2000*	*2004-2005*
0.0-0.00	73.8	52.8	55.5	57.4	44.0	30.1	32.1	33.6	39.1	40.7	50.3	35.7	35.3	37.7
0.1-0.40		22.5	23.7	20.8		18.0	20.8	17.5	22.7	19.1		17.7	21.3	19.2
0.41-1.00	13.4	12.7	12.0	13.0	22.1	20.6	22.4	22.5	17.4	18.0	17.6	17.9	17.6	16.8
1.01-2.00	7.8	7.7	5.8	5.8	18.3	17.8	16.2	15.4	11.8	12.0	15.0	14.6	12.6	13.0
2.01-4.00	3.4	3.2	2.1	2.3	10.2	9.5	6.5	8.8	6.10	6.9	9.9	8.7	8.1	8.4
4.01 and above	1.6	1.2	0.7	0.7	5.4	4.0	2.0	2.1	2.80	3.2	7.2	5.4	5.1	4.9

(Source: Employment / Unemployment situation among social groups in India, 43rd, 50th, 55th and 61st round survey, NSSO.)

OBC* Separate data for OBC is not available before 1999-2000.
Others**: 1987-88, 1993-94 (i.e., including OBC), others for 1999-2000 and 2004-2005 (i.e., population excluding SC, ST and OBC).

Table 6.7

Percent of Rural and Agricultural Wage Labourers for SC and Others (Non-SC / ST)

Percentage of rural labour household and agricultural labour household to total rural household.

Social group	*Rural labour households*			*Agricultural labour households*		
	1987-88	*1993-94*	*1999-2000*	*1987-88*	*1993-94*	*1999-2000*
SC	63.13	59.45	61.41	51.7	49.28	51.37
Others	31.15	30.15	25.32	23.2	23.2	19.02

(Source: Rural labour enquiry, report of general characteristics of rural labour households, 1987-88, 1993-94 and 1999-2000, Labour Bureau, Ministry of Labour, Shimla.)

Table 6.8

Occupational Pattern for SC and Others (Non-SC / ST) — (Rural)

Social groups	*Self-employed in*				*Labour*			*Others*
	Year	*Agricu-lture*	*Non-Agriculture*	*Total*	*Agricu-lture*	*Non-Agriculture*	*Total*	
SC	2004-2005	20.2	14.1	34.2	40.5	15.4	56.0	9.8
	1999-2000	16.4	12.0	28.4	51.4	10.0	61.4	10.2
	1993-1994	20.1	10.7	30.8	49.3	10.2	59.5	9.7
	1987-1988	18.9	11.0	29.9	51.7	11.4	63.1	6.9
Others	2004-2005	43.3	18.1	61.4	15.6	7.7	23.3	15.3
	1999-2000	41.1	14.8	55.9	19.0	6.3	25.3	18.7
	1993-1994	43.3	14.4	57.7	23.2	6.9	30.2	12.1
	1987-1988	43.3	13.8	57.1	23.2	7.9	31.1	11.5

(Source: Employment / Unemployment situation among social groups in India, 43rd, 50th, 55th and 61st round survey. NSSO.)

Table 6.9

Occupational Pattern for SC and Others (Non-SC / ST) — (Urban)

Social groups	*Year*	*Self-employed*	*Regular wage/ Salaried work*	*Casual labour*	*Others*
SC	2004-2005	29.4	41.1	21.8	7.7
	1999-2000	27.3	37.6	26.5	8.5
	1993-1994	24.9	39.2	27.6	8.3
	1987-1988	26.0	39.4	26.0	8.5
Others	2004-2005	38.6	44.8	6.2	10.3
	1999-2000	35.5	46.5	7.4	10.5
	1993-1994	35.5	43.9	10.8	9.8
	1987-1988	35.2	45.0	10.3	9.2

Source: Employment/ Unemployment situation among social groups in India, 43rd, 50th, 55th and 61st round survey. NSSO.

Unfortunately, the consciousness of the Dalit leadership that has benefited from the affirmative action of various kinds is elitist in character — mirroring the leadership in the country in general. They constitute a creamy layer and have adopted the feudal attitudes of the mainstream leadership since it suits them and also the mainstream leadership. They are busy defending their gains rather than helping their community to come up. They could have provided leadership to all the marginalised sections to transform society but they seem not to want to share their gains with anyone else, including those of their own community.

Perhaps the most marginalised section of society is women. They are marginalised in every community, whether amongst the Dalits, Muslims, elite sections or the working class. Women from the marginalised sections face double discrimination both due to their sectional identity as well as gender. Poverty affects them the worst. Women in poor households face the double burden of working outside to supplement family income and running the home. The burden increases even more when the male members fall prey to alcoholism in a bid to escape their social problems. A powerful movement of women against alcoholism came up in Andhra Pradesh in the mid-1990s. That the problem is old is proved by the fact that during the national movement, Gandhi had also thrown his weight behind curbs on consumption of alcohol and prohibition was introduced in the country. Under pressure from the lobbies of manufacturers of alcohol, business interests and liberal opinion prohibition was withdrawn, resulting in monumental problems for the families of the poor. Alcoholism often results in diversion of expenditure from education, health and food leading to malnourishment and entrenched poverty.

Just as in the case of the other marginalised sections, successful women also marginalise their own less successful comrades. On the one hand, successful women adopt the dominant male values and behave like successful men. In the South Asian subcontinent with its feudal leadership, women from powerful families have risen to the top jobs and become prime ministers. Benazir Bhutto in Pakistan, Sheikh Hasina and Begum Khalida Zia in Bangladesh, Sirimavo Bhandaranaike and Chandrika Kumaratunga in Sri Lanka and Indira Gandhi in India have been all-powerful leaders in their countries for fairly long periods but made little difference to the position of ordinary women in their respective countries. These leaders have hardly acted differently from their male counterparts.

On the other hand, in homes there is a clash amongst women for domination. The one who is able to dominate exploits the others. For instance, in elite households with female workers, the house lady exploits them with little regulation of working hours and the pressure to perform unspecified duties so that the work stretches through the day. To be fair, the issue is not

just gender specific but that of all house-help. The point is that often it is the women in the house who exploit the domestic help (with little sympathy for women workers) because of their family's position in society and do not display a consciousness different from the male consciousness.

Due to the reasons discussed above illiteracy, poverty and ill health are entrenched among women in India. A large part of the work they perform is free and therefore, they are not given the importance they deserve. Their work is often not counted in calculating national income so that they get marginalised in policy making. When they work outside the home, they not only receive lower wages for similar work but often get work considered to be unskilled so that they are paid less. They often work from their homes and depend on traders for credit and marketing and are exploited by them

The low social position of women reflects in their subordinate position in marriage and in a majority of the communities in the country a dowry is demanded by the bridegroom's family. Women are seen as a source of capital by the family they marry into, especially, business families. Harassment of the bride has, in many cases, resulted in dowry deaths and bride burning. The low social position has also resulted in foeticide and an adverse sex ratio. In spite of the several laws against these evils, the situation has hardly improved because the prejudices have got entrenched in society. The tragedy is that often women are equal partners in these crimes against women — a result of imbibing the dominant male values in society.

This is not to argue that the status of women in India has not changed. They have made substantial progress in areas of education, health, jobs and so on. Their struggles have brought about major changes in the laws to protect their rights. The point is that in spite of all the positive changes, society remains substantially male centred and dominated. A new female consciousness, which could have given a lead to other marginalised sections has not emerged. Further, consciousness has been set back due to the ongoing commercialisation, which has turned a woman's body into an object (as in advertisements, fashion shows and entertainment) and led to an increase in crimes against women (as reflected in the falling sex ratio) and to their exploitation.

Another segment of the work force that is not recognised is child labour. It is against the law for children below the age of fourteen to work. If they work they are characterised as child labour and officially not counted. Poor families send their children to work to supplement family incomes. Further, in many cases poor families use their children to help them in whatever work / trade they do. Artisans and small farmers take help from their own children, which takes the form of training for them to carry on the work later on. This category of work needs to be treated differently from that of the work that children do outside their homes for a wage.

Outside work often involves Dickensonian exploitation with very long hours of work and at times in hazardous conditions. The childhood of such children is often lost and they grow up marked by the harshness of life that they have had to face from an early age. They often suffer from poor health due to diseases related to the work they do, the hard work they perform and unhygienic conditions of living. While working in closed door plastic factories or lead acid waste recycling factories is not visible to everyone, work in homes, dhabas and rag picking are visible to all. The elite casually accept this as a normal way of life.

In brief, the workers in India are a highly fragmented and heterogeneous lot and their consciousness is far from that of the "working class" so that they are unable to represent their own interests in society. They are marginalised and are unable to resist their exploitation. This has much to do with the nature of disruption of the village life and the level of consciousness that has remained entrenched in society since the colonial times.

3. Changing Structural Dichotomies in Post-Independence Period

Just as labour displays various divisions (presented above), there are other divides that need to be taken into account in any analysis of the Indian economy. Some of these are:

(a) State and market or public sector and private sector,
(b) Black and white economies,
(c) Agriculture and non-agriculture,
(d) Modern and traditional sectors,
(e) Advanced and backward states,
(f) Rural and urban divide,
(g) Registered and unregistered sectors, and
(h) Corporate and non-corporate sectors.

These are not watertight categories. There is considerable overlap amongst them.

India has had both a planned economy and a mixed economy consisting of a significant public sector (*see* Chapter V) with output at the peak from this sector constituting 23.8 per cent of the GDP in 1990-91 (Table 3.7). With disinvestment and privatisation since 1991, the share of this sector is falling. In spite of its failures the planning process has had a significant impact on the Indian economy. Even sectors that are not directly affected by the governmental processes have been indirectly impacted by it through the flow of resources it set in motion.

The planning process led to the expansion of the public sector, which has impacted the economy in several ways (*see* Chapter V, Section 5). In the organised sector it has been the major source of employment with the private sector contributing little. Its contribution to R&D and to Indian industry gaining a degree of autonomy has been significant. It has been a significant contributor to plan expenditures (under the head IEBR).

The government at various levels — Centre, States and the Local — has had a significant impact on society and the economy. Its expenditures as a share of GDP have steadily risen and it has had to perform a myriad and increasing number of tasks. In a poor society like India, the poor are critically dependent on the state since the market hardly caters to them. Where unregulated markets have existed they have resorted to exploitation in extreme forms such as charging usurious interest rates for credit, paying very low wages for work and buying produce at much below market prices. Markets have been vitiated due to malpractices like production of spurious drugs, quacks working as doctors and adulteration of food stuffs. (*see* Kumar, 1999)

It is not that state intervention has always been beneficial to the poor. Benefits that could have been derived have been severely eroded due to corruption, such as in the primary health centres, government schools, public works programmes and public distribution system, to name a few. If state intervention had been more successful, the lot of the poor would have been transformed in the last sixty years. The local power structures have learnt to corrupt the public sector in league with the bureaucracy and gain from it. The failure of the state to deliver has not only resulted in pressures for privatisation but is the best advertisement against nationalisation.

An important structural change in the Indian economy is that the share of the black economy in the total economy has grown right through the post-independence period. Kumar (1999) shows that this has serious implications for every aspect of society — political, social and economic. All the macro variables are affected by it, policies fail due to its existence, inequalities increase due to it, development slows down and the quality of governance becomes poorer (*see* Chapter VIII). A proper understanding of the Indian economy is not possible without its incorporation in the analysis. Unfortunately, most analysts ignore this factor and, therefore, come up with partial analysis and incorrect results. Their inability to incorporate it in their analysis is a result of following the Western frameworks and ignoring the Indian reality — another example of continuing disruption.

The black economy is substantially concentrated in the hands of at best the top 3 per cent of the population in the income ladder (Kumar, 1999). Those lower down have little opportunity to make black incomes and actually suffer its ill effects directly or indirectly. It has been argued (Chapter V,

Section 4) that the top 3 per cent have much higher incomes than revealed and they are the ones who constitute the consumerist class in India. Three per cent of India's population is almost 35 million individuals, that is like a big-sized European country. They are the ones that consume the fancy cars, TVs and go on foreign vacations, so that the Indian market appears to be big. In other words, hidden in a vast poor population of about 1.15 billion, there is a tiny island of prosperity. This explains the mystery of how in a country of such low per capita income, there can be so much consumption — fuelled by a substantial black economy concentrated in the hands of a few.

The Indian economy is divided between the registered and the unregistered sectors (also known as the organised and unorganised or the formal and the informal). The unregistered sector is itself divided between the small and the tiny sectors. The registered sector is the one that has a formal status with the government. All units using power and employing ten or more people or units running without power and employing more than twenty people have to be registered. The registered units themselves are split between the large, medium and the small scale. Across these sectors, there are vast differences in the vintage of technology employed, marketing channels and sources of credit making analysis difficult. Over time, the output has shifted in favour of the registered or formal sectors as their productivity has risen rapidly with modernisation but they have provided little additional employment since they use an increasing amount of capital per employee. Even in agriculture, modern technology has displaced labour, resulting in a crisis of employment there as well.

The economy has also seen a growing divide between the rural and the urban areas. The former has been marginalised in terms of development with poor infrastructure. The urban areas need infrastructure but that is expensive. So, it is provided to a small portion of the urban population, which lives in enclaves surrounded by vast slums or slum-like structures. This has set up a vicious circle of resources being pre-empted by parts of urban centres leaving little for the rural areas and even for the majority of urban areas. So, major parts of urban centres are like slums and the rural areas mostly remain backward and generate little employment. Consequently, migration to urban areas has accelerated, pressure for setting up expensive infrastructure has grown and slums abound, leading to a vicious cycle.

For a poor country like India, expensive urbanisation is no solution to its problems but we have rushed towards it without a critical analysis (*see* Chapters V and IX). It is being driven by a segmented vision of modernity and hence is largely unplanned. For instance, subsidies and choice of technology made for unrelated reasons are having the effect of increasing urbanisation. Consequently, small cities and most parts of metropolises are in a state of collapse with poor or non-existent civic amenities. For instance, in

spite of being one of the fanciest suburbs of Delhi, Gurgaon has no sewage system or public transportation, which has led to chaotic conditions. Mumbai was inundated due to lack of drainage and Bangalore flooded because its lakes and ponds have been built on. Policies to counter urbanisation or put in place decentralised urbanisation have not been thought through properly. In effect, India has borrowed a non-solution from the West, which has created problems there and is resulting in even larger problems in India, a developing nation.

The economy is witness to a growing regional differentiation. While some argue that there is a convergence in the Human Development Index (HDI) across states (*see* Chapter IX), per capita incomes have been diverging. It may be argued that the former is a more holistic measure because it captures the non-monetary dimensions of human development (literacy, health, democracy, position of women and so on), which the income based measure is not able to do. While this is true, the non-monetary measures are themselves related to incomes (not fully, but in some measure) so that the complexity associated with HDI regarding the variables to be included and the weightage to be accorded them can be obviated by sticking to the simpler income measure. But then it is also true that a not very affluent state like Kerala has excellent standards of social services and a high HDI ranking. To complicate matters, inter-state comparisons also suffer from the problem of reliability of data across states.

The bigger problem is that in the case of HDI, its components, such as, percentage of literacy has a maximum of hundred per cent and all states will tend to that over time. Public policy has accorded priority to the spread of education and provisions for health since independence. It is only in the post-1991 phase when the NEP was launched that the state has been on the retreat and privatisation has taken greater hold resulting in the disparity in the provision of these services being on the rise. However, due to state policies public provision of these services across the country is still expanding and the gap across states can only narrow so that it would appear that there is convergence. The issue then becomes a definitional one and the claim of a decreasing inter-state gap between the advanced and the backward states may not be very meaningful.

The position of different sections of people across different states varies vastly because of the differential in infrastructure — physical and social — and its quality. For instance, the facilities in schools in rural and urban India and the quality of teaching differ greatly but are critical for skill development. The growing internet divide is adding to differentials of skills. The nature of medical infrastructure available is also crucial. In a backward village a child can still die of diarrhoea while in urban areas or in more advanced states that would be rare. The nature of the work available to women

also vastly differs across states. None of these are captured by the differences in HDI.

There are other kinds of growing inequality in society that are important, for instance in incomes, wealth and access to infrastructure and resources. Disparity between owners of capital and those who earn by the sweat of their brow has been on the rise. In this the black economy has played a major role (Kumar, 1999) since it is used to earn extra profits that are not declared (*see* Chapter VIII).

The other sectoral divides listed above are discussed in the following sections. The economy may be divided into Primary, Secondary and Tertiary Sectors (or the commonly used Agriculture, Industry and Services):

(a) The primary sector consists of:

(i) Agriculture and allied activities,
(ii) Forestry and logging,
(iii) Fishing, and
(iv) Mining and quarrying.

Agriculture is by far the dominant component and the focus in this chapter would be on this part.

(b) The secondary sector consists of:
(i) Manufacturing,
(ii) Construction, and
(iii) Electricity, gas and water supply.

The focus in this chapter would be on manufacturing while infrastructure would be dealt with in Chapter IX.

(c) The tertiary sector consists of:
(i) Trade, hotels and restaurants,
(ii) Transport, storage and communication,
(iii) Financial, insurance, real estate and business services, and
(iv) Public administration, defence and other services.

4. Agriculture: Coping with the Crisis Within

Independent India inherited a very backward agricultural sector (*see* Bharadwaj, 1974 and Bhalla, 2007). The trend of food-grain output in India since independence is given in Table 6.10 (Also see Graphs 6.1 and 6.2). Since agriculture was the largest sector in the country, its backwardness became the reason for the entrenched poverty in rural areas of the country. Technology in this sector was very old. And due to lack of surplus, which was

Table 6.10

Agricultural Production — Food-grains

(Million tonnes)

Year	Cereals		Coarse Cereals	Total Cereals	Pulses	Total Food-grains
	Rice	Wheat				
1950-51	20.58	6.46	15.38	42.42	8.41	50.83
1951-52	21.30	6.18	16.09	43.57	8.42	51.99
1952-53	22.90	7.50	19.61	50.01	9.19	59.20
1953-54	28.21	8.02	22.97	59.20	10.62	69.82
1954-55	25.22	9.04	22.82	57.08	10.95	68.03
1955-56	27.56	8.76	19.49	55.81	11.04	66.85
1956-57	29.04	9.40	19.87	58.31	11.55	69.86
1957-58	25.53	7.99	21.23	54.75	9.56	64.31
1958-59	30.85	9.96	23.18	63.99	13.15	77.14
1959-60	31.68	10.32	22.87	64.87	11.80	76.67
1960-61	34.58	11.00	23.74	69.32	12.70	82.02
1961-62	35.66	12.07	23.22	70.95	11.76	82.71
1962-63	33.21	10.78	24.63	68.62	11.53	80.15
1963-64	37.00	9.85	23.72	70.57	10.07	80.64
1964-65	39.31	12.26	25.37	76.94	12.42	89.36
1965-66	30.59	10.40	21.42	62.41	9.94	72.35
1966-67	30.44	11.39	24.05	65.88	8.35	74.23
1967-68	37.61	16.54	28.80	82.95	12.10	95.05
1968-69	39.76	18.65	25.18	83.59	10.42	94.01
1969-70	40.43	20.09	27.29	87.81	11.69	99.50
1970-71	42.22	23.83	30.55	96.60	11.82	108.42
1971-72	43.07	26.41	24.60	94.08	11.09	105.17
1972-73	39.24	24.74	23.14	87.12	9.91	97.03
1973-74	44.05	21.78	28.83	94.66	10.01	104.67
1974-75	39.58	24.10	26.13	89.81	10.02	99.83
1975-76	48.74	28.84	30.41	107.99	13.04	121.03
1976-77	41.92	29.01	28.88	99.81	11.36	111.17
1977-78	52.67	31.75	30.02	114.44	11.97	126.41
1978-79	53.77	35.51	30.44	119.72	12.18	131.90
1979-80	42.33	31.83	26.97	101.13	8.57	109.70
1980-81	53.63	36.31	29.02	118.96	10.63	129.59
1981-82	53.25	37.45	31.09	121.79	11.51	133.30
1982-83	47.12	42.79	27.75	117.66	11.86	129.52
1983-84	60.10	45.48	33.90	139.48	12.89	152.37
1984-85	58.34	44.07	31.17	133.58	11.96	145.54
1985-86	63.83	47.05	26.20	137.08	13.36	150.44
1986-87	60.56	44.32	26.83	131.71	11.71	143.42
1987-88	56.86	46.17	26.36	129.39	10.96	140.35
1988-89	70.49	54.11	31.47	156.07	13.85	169.92
1989-90	73.57	49.85	34.76	158.18	12.86	171.04
1990-91	74.29	55.14	32.70	162.13	14.26	176.39
1991-92	74.68	55.69	25.99	156.36	12.02	168.38
1992-93	72.86	57.21	36.59	166.66	12.82	179.48
1993-94	80.30	59.84	30.82	170.96	13.30	184.26

(Contd. . .)

Table 6.10 *(. . .contd)*

Year	*Cereals*		*Coarse Cereals*	*Total Cereals*	*Pulses*	*Total Food-grains*
	Rice	*Wheat*				
1994-95	81.81	65.77	29.88	177.46	14.04	191.50
1995-96	76.98	62.10	29.03	168.11	12.31	180.42
1996-97	81.73	69.35	34.11	185.19	14.24	199.43
1997-98	82.54	66.35	30.40	179.29	13.83	193.12
1998-99	86.08	71.29	31.33	188.70	14.91	203.61
1999-00	89.68	76.37	30.34	196.39	13.41	209.80
2000-01	84.98	69.68	31.08	185.74	11.07	196.81
2001-02	93.34	72.77	33.37	199.48	13.37	212.85
2002-03	71.82	65.76	26.07	163.65	11.13	174.78
2003-04	88.53	72.15	37.60	198.28	14.91	213.19
2004-05	83.13	68.64	33.46	185.23	13.13	198.36
2005-06	91.79	69.35	34.06	195.20	13.39	208.59
2006-07	93.35	75.81	33.92	203.08	14.20	217.28
2007-08	96.69	78.57	40.76	216.02	14.76	230.78
2008-09	99.15	80.58	39.48	219.21	14.66	233.88

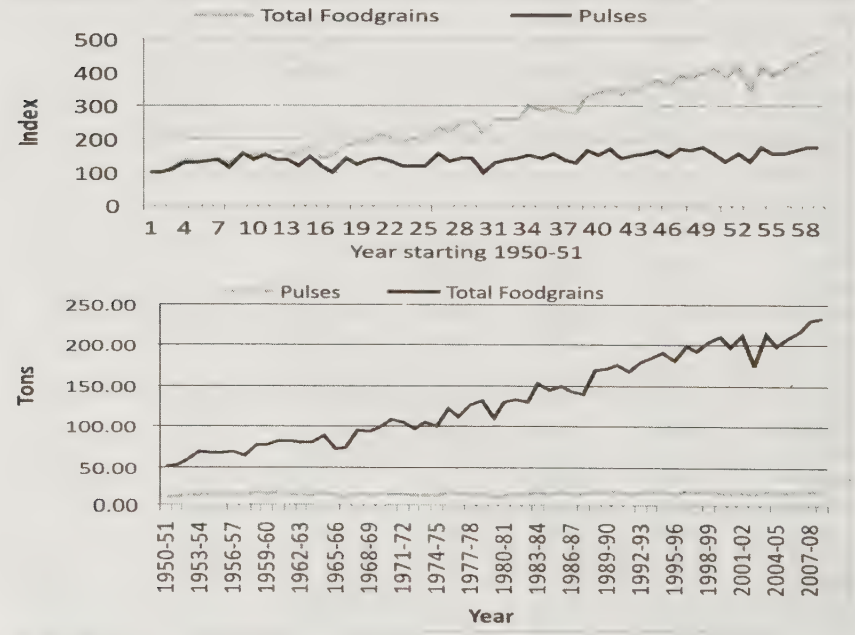
(Source: RBI (2009) and Ministry of Agriculture, Government of India.)

Notes: (1) Data for 2008-09 are based on Advanced Estimates. Also see Notes on Tables.

Graph 6.1

Top: Index of food-grains production 1950-51 to 2008-09

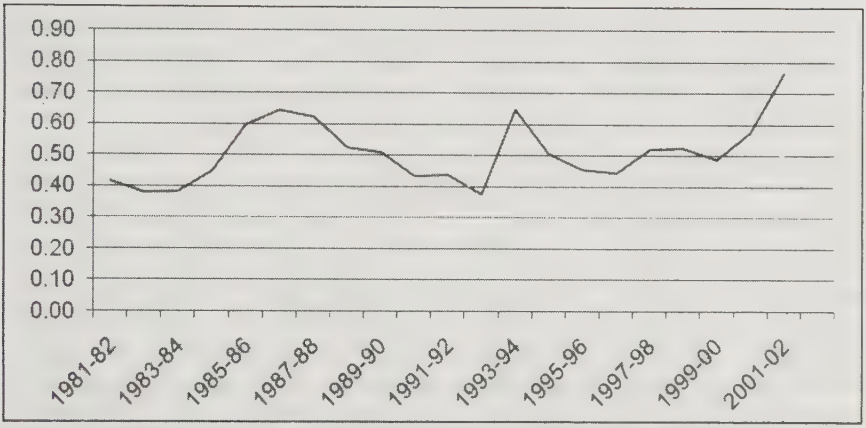
Bottom: Graph of agricultural production – food-grains 1950-51 to 2007-08



(Source: RBI, 2009.)

Graph 6.2

Food subsidy in India (% of GDP)



(Source: Expenditure Budget Various Issues and Handbook of Statistics on Indian Economy, 2002-03, RBI.)

siphoned off from the hands of the farmers through various devices, there was little investment so that conditions on farms were rather primitive. Low levels of investment also meant little technological dynamism. Agriculture followed a traditional pattern with seemingly little change over centuries. The ploughs they used, the crops they cultivated and the irrigation practices they followed hardly changed over time. There was little irrigation (*see* Table 6.11) so that much of agriculture in the country depended on rainfall. This led to wide fluctuation in agricultural production and since the peasants had little surplus, droughts meant deterioration in their living conditions. They often got indebted and because of the usurious interest rates charged they could not easily come out of the debt bondage. According to the theory of semi-feudalism (Bhaduri, 1972), there was little incentive for the landlords to invest in technological change even though they had the surplus to do so — since that would have ended the bondage of the peasants under their control.

The landlords led a wasteful life and the peasants were trapped in wasteful social and religious practices which required taking loans that led to bondage. These features of rural life led to attitudes and practices that have led to the image of a backward sector where people lived in misery and change was difficult. No wonder Nehru thought of this sector as one that cannot redeem itself and cannot give a lead (*see* Chapter II). The modernisers rather than figuring out how to make it dynamic could only think of implanting and supplanting modern agriculture on top of the existing traditional one. This brought a different crisis in agriculture. Old holistic practices were given up rapidly in favour of the modern not very environment-friendly practices (based on chemicals and crops not suited to climatic zones

Table 6.11

Irrigated Area under Different Crops

(in million hectare)

Year	Oil Seeds	(in %)	Sugarcane	(in %)	Cotton	(in %)	Total Cereals	(in %)	Total Pulses	(in %)
1950-51										
1960-61										
1970-71	1.1	(7.4)	1.9	(72.4)	1.4	(17.3)	28.1	(27.6)	2.0	(8.8)
1980-81	2.3	(14.5)	2.4	(81.3)	2.1	(27.3)	35.8	(34.1)	2.0	(9.0)
1990-91	5.8	(22.9)	3.4	(86.9)	2.5	(32.9)	42.3	(41.0)	2.6	(10.5)
1998-99	6.6	(23.5)	4.1	(91.7)	3.2	(34.1)	52.0	(50.8)	3.0	(12.1)
1999-2000	6.5	(24.7)	4.2	(92.4)	2.9	(33.0)	52.7	(51.4)	2.9	(13.0)
2000-01 (P)	5.5	(22.2)	4.3	(92.0)	2.8	(32.2)	51.1	(50.4)	2.7	(12.5)
2001-02 (P)	6.0	(24.1)	4.3	(92.0)	3.1	(34.0)	51.0	(50.4)	3.1	(13.4)
2002-03 (P)	5.4	(23.1)	4.4	(92.4)	2.6	(33.3)	47.1	(50.1)	3.0	(14.1)
2003-04 (P)	6.4	(24.7)	4.1	(92.1)	2.6	(34.0)	49.8	(49.7)	3.3	(13.7)
2004-05 (P)	8.1	(26.9)	3.7	(93.4)	3.1	(36.7)	50.3	(51.4)	3.3	(14.0)
2005-06 (P)	8.7	(28.0)	4.3	(92.5)	3.1	(36.1)	52.1	(52.3)	3.3	(15.0)

(Source: Economic Survey, Various Issues)

Directorate of Economics and Statistics, Department of Agriculture and Cooperation

Notes:

1. Irrigated area under oilseeds denotes the area under groundnut, rapeseed and mustard, linseed, sesamum and others.
2. Figures in parentheses represent percentages of irrigated area to total area under the crops.

P : Provisional.

and requiring expensive investments with diminishing returns over time) that have led to much disease, indebtedness and environmental damage. The sustainability of such agriculture is in doubt and is likely to lead to another crisis in agriculture over time. Examples of this are the use of DDT, sugarcane cultivation in semi-arid areas of Maharashtra or of paddy cultivation in Punjab and Haryana.

Due to the prevalence of widespread illiteracy among the farming community, they could hardly understand the modern practices and did not use them optimally. They became dependent on the experts who came from the outside to advise them. If modernisation had occurred from within the farming community, there was a possibility that it may have retained its organic character by marrying the old with the new. The holistic practices that had evolved over centuries have been quickly given up lock, stock and barrel for the new ones, which are applied mechanically. Thus, modernisation has not proved to be an undisguised blessing — food security in the short-run at a long-term cost.

4.1 Major Changes since Independence: Modernisation and Opening up of the Economy

India inherited a very backward agriculture in 1947 with poor infrastructure and low productivity. As already argued, since it was the largest sector of the economy and the modernisers were in a hurry to modernise society, it became a source of extracting the surpluses for industrialisation. While widespread poverty required low agricultural prices it also benefited industry which could get cheap labour. However, a rapidly rising population required increasing surplus production.

After the drought of 1966 and 1967, India went in for a rapid transformation of agriculture in select pockets. Large irrigation-cum-power dams were taken up starting in the 1950s (Bhakra, Hirakud, Nagarjunasagar, etc.) so as to provide irrigation. Bank credit was expanded and availability of fertiliser and pesticide enhanced to support the Green Revolution technology.

There was a change in the pattern of food production from subsistence to commercial. The composition of the farming community underwent a change with the disappearance of the landlord class, emergence of the rich farmer category which produced for the market, marginalisation of the marginal farmers who over time became landless and provided the cheap labour required by the farmers and the urban areas. Since much of the Green Revolution technology went in for labour displacing technical change (based on use of machines) very little employment generation has taken place in agriculture in the recent phase. This has added to the surplus labour and to migration to urban areas. Due to rapid commercialisation in agriculture, this sector has seen a shift to capitalist farming.

The Green Revolution led to concentration of production: (a) in the hands of the rich farmers who had access to capital, and (b) in the irrigated areas thereby giving rise to both growing disparities across regions and amongst the different class of farmers. Subsidies to inputs in agriculture helped not only keep prices in check they also led to the greater use of inputs and to increase in productivity and greater surpluses. Surpluses from the Green Revolution areas move across the country, say, from Punjab to Kerala or Assam. Agriculture markets have developed from the earlier state level markets to the national markets today as mobility has increased. Thus, there is a tendency for agricultural wholesale prices to equalise (but for trade, transport and storage margins).

Eastern India lagged behind in productivity and output up to the late 1970s. This changed, especially in West Bengal which witnessed the Bargardar movement (land to the tiller). The role of asset ownership in increase in consumption and productivity has been recognised. That is why some analysts have argued for land ceiling and land redistribution. There has how-

ever, been an asymmetry across agriculture and non-agriculture. There is a ceiling on ownership of land so that the surplus land could be distributed to the landless and thus help them come out of poverty. In the case of industry, there was reservation for the small scale sector besides the Monopolies and Restrictive Trade Practices Act (MRTP), but no limit to ownership of capital or the desire for its redistribution amongst all the citizens of the country. The corporate sector is owned by a very tiny per cent of the country (less than 0.1 per cent of the families). In agriculture, with the passage of time the average land-holding has become smaller and smaller with its sub-division among the family members so that even according to the land ceiling, there is currently little land available for redistribution.

Up to the late 1970s when agriculture was the dominant sector it played a role in generating demand in the economy. Whenever a drought occurred in agriculture, demand would fall across the economy as purchasing power got affected. Thus, as the drought eased, recovery in the economy would set in. By the end of the 1970s, this pattern changed. The services sector started dominating and in spite of a decline in the agricultural output the economy did not shrink. Only its rate of growth moderated slightly.

In the post-1991 phase, the penetration of markets in agriculture accelerated. It has affected the cropping pattern, led to greater casualisation of labour, reduced the rate of growth of this sector with the share of investment declining and employment generation becoming negligible. Subsidies have been slowly lowered and the cost of undertaking agricultural activities have increased. Opening up of the markets to imports following WTO commitments has led to increased inflows of certain agricultural commodities from abroad, affecting the Indian farmers adversely.

A large number of farmers have been committing suicide due to their indebtedness. While their costs rose, globalisation led to their receiving lower prices. It is not the poor farmers or the landless who are committing suicide but the better off ones who tried to innovate little realising that they were unwittingly getting caught in the process of globalisation.

4.2 Structural Changes in Agriculture

The structure of agriculture in India has seen a major change since independence. In the beginning, zamindars with large land-holdings dominated the sector. That scenario has now changed. With the abolition of zamindari, introduction of land ceiling and fragmentation of land over generations, large land-holdings are few and not possible legally — they can only be benami. The power of such families (political and economic) has decreased over time even though due to historical reasons they are still relatively powerful in the local regions.

In agriculture, five categories of families can be analytically defined on the basis of their involvement in the land, labour and produce markets.

First, the landlords of old typically owned large tracts of land, did not work in the labour market and employed labour on their farms (this could take many different forms, like share cropping or employment for cash or kind). Share cropping could involve either credit or land or both but now such cultivation has declined compared to earlier times.

This category also consists of the traders who do not offer labour on the farms but control a lot of the surplus because of the credit they advance. They do not grow crops but collect the surplus from the middle and the marginal farmer categories (described below).

The second category is the rich farmers who undertake capitalist farming. They are rich in relative terms and not compared to other groups in urban areas. It may be pointed out that the kind of high incomes that can be earned in industry and services cannot be earned in farming even if one owns the maximum land allowed under the ceiling. Even if one owns ten times the land allowed by ceiling laws (through benami holdings) the incomes cannot be comparable to what a small capitalist can make. However, if the rich farmer had diversified into businesses, like providing services or agro business, then the income from these activities can be large. Many of the children of the rich farmers have diversified into such activities and earn a lot of money. In fact, many of them do not want to work in agriculture. It is clear that such activities should not be categorised as agricultural operations but as business activity.

This category owns reasonable amounts of land (not large like the landlords used to), has the capital to invest and generate a substantial surplus over and above their own needs. They are the ones that produce for the market. They hire in labour and also land whenever possible. They are the ones that benefited the most from the Green Revolution, Nationalisation of banks and the easier availability of credit. This category has been at the forefront of technological changes in agriculture.

The third category is that of the middle or the self-sufficient farmer. They own enough land to produce for their needs and generate a surplus, which gives them the income to buy non-agricultural goods and services. They do not need to buy back food later and can hold on to their requirements. Since they do not own much capital they have not been able to adopt the new practices the way the rich farmer category could. Their needs of capital are met by the traders who also buy their produce. Of course, there are variations on these themes in different areas. They approach the banks for loans but due to the prevailing corruption often fall back on the traders and money lenders. They do not offer their labour outside their farms and have to hire in labour at the time of harvesting, weeding, ploughing and sowing. Over time, these

jobs are getting mechanised with the use of tractors, harvesters and threshers. Thus, much labour is being displaced, resulting in rising capital intensity and falling levels of employment generation in Indian agriculture.

The fourth category is that of the marginal farmer who own small parcels of land which do not yield enough output to enable them to be self sufficient. They not only work on their farms but also offer labour on the farms of others. They sell a part of their produce in the market not because they have a surplus but because they need the cash for fulfilling other requirements. They have to go back to the market and buy food in the lean season (at higher prices). They have little capital and borrow from money lenders and traders. Their crop is usually mortgaged to the person they borrow from. They do not innovate and usually practice traditional agriculture because they find it difficult to go for modern, expensive technology, which requires huge capital investment.

Finally, there are the landless workers who do not own any land and offer their labour to others. This category has expanded substantially over time and constitutes a reserve army of labour. They also migrate to the Green Revolution areas where there is need for labour during the peak harvesting season.

The above five categories are not water tight compartments but vary from region to region so that the above mentioned analytical classification should be taken to be the broad categories for analytical purposes. These are summarised below in Table A:

Table A

Classification of Families involved in Agriculture in India

Category	*Type*	*Land Owned*	*Produce*	*Labour Mkt.*	*Capital Market*
I	Zamindar	Large (Benami)	Big surplus	Hire in	Lend
II	Traders	No Land	Big surplus	No involvement	Lend
III	Rich Farmer	Large	Large surplus	Hire in	Self-sufficient
IV	Middle farmer	Medium	Small surplus	Own and Hire in	Borrower
V	Marginal	Small	Inadequate	Own and Hire out	Borrower
VI	Landless	Nil	Nil	Hire out	Borrower

(Source: Kumar, 1982.)

The Green Revolution in agriculture since the mid-1960s was a source of major changes. While prior to that expansion of area under crops was the major contributor to increased output, after that it became the increase in productivity. It also changed the nature of food-grains production from mainly subsistence to increasingly commercial. Earlier food-grains were meant mostly for self-consumption. But with the increase in surpluses in crops like wheat and rice, production became increasingly market oriented. There were cropping pattern changes with farmers moving to production of crops where productivity gains increased the profitability of the crop. Over time, production of coarse grains, oilseeds and pulses has suffered. Cultivation of the more profitable vegetables and fruits has increased substantially in the country.

4.3 Food Consumption, Imports and Food Security

The increase in surpluses allowed the country to become relatively self-sufficient in food-grains and the kind of crisis faced in 1966-68 has not been repeated. In fact, there have been periods of plenty when food-grain stores have brimmed over with reports of spoilage due to rains and storage for long time. There have been times when the country exported food-grain to reduce stocks (at times with subsidy). There was an increase in the per capita food consumption (Table 3.3) and it was argued that India had achieved food security. However, this needs to be qualified because poverty has not been eliminated and a large number of people have inadequate purchasing power to buy enough food to meet their nutritional requirements. That is why in India roughly 50 per cent of women and children remain undernourished. Clearly, if these families had higher incomes they would purchase more food. Thus, the surpluses when they have arisen are a result of the persistence of poverty. Governments have been criticised for exporting subsidised food but not supplying it to the poor.

In the post-1991 period, food consumption per capita has fluctuated substantially (*see* Graph 3.5) but has, on the average, declined. This was commented on in Kumar (1994a) and later by others. Some have argued that this is due to growing prosperity and the shift in consumption pattern from food-grains to meat, poultry, vegetables and fruits. While this may certainly be true for the affluent sections of the population, it is unlikely to be true for the poor. If according to GOI (2007c) in 2003-04, 77 per cent of the population lived at less than ₹ 20 per day per person, they are unlikely to be able to afford more of the costlier food. Further, production of more meat and poultry requires more food-grain rather than less, so indirectly the consumption of food-grain by the well-off should increase rather than decrease. If the direct and indirect consumption of food-grains of the well-off rises while the average consumption falls, this can only be at the expense of the consumption of the rest of the population, especially that of the poor.

Changes in habits have taken place, like even the poor in the urban areas want to own a mobile phone or a TV and consumption of liquor has increased whether their families get enough nutrition or not. However, twice after 1991 when the harvest was good consumption recovered to the peak levels achieved in 1991 (*see* Graph 3.5). Obviously, this is not due to an increase in the consumption of the well-off but because of the higher consumption levels of the poor. This suggests that there is no permanent shift in food habits of the majority and the crux of the matter is prices and the purchasing power of the poor. NEP affected per capita food consumption via prices, PDS and unemployment.

Post-1991, due to the marginalisation of agriculture, the share of investments going to this sector suffered (Tables 6.12 and 6.13) and cropping patterns changed in favour of non-food-grain crops so that the average rate of growth of food-grain production has fallen. This has dented the food security of the country.

According to one argument, self-sufficiency in food is not important in the context of a market economy. It is argued that if the nation has adequate foreign exchange reserves it can import its requirements. It is argued that using comparative advantage one should grow what one can and then import what one needs. For instance, high-value basmati rice can be exported while importing a lot more of the ordinary variety of rice. This argument misses four important points. First, for a large number of farmers food-grain production is also a question of livelihood and when imports take place it dents their purchasing power. A shift to more market-based agricultural produce with modern technology is more capital intensive and results in labour displacement and therefore, more unemployment.

Table 6.12

Gross Fixed Capital Formation in and for Agriculture at 1993-94 Prices

(₹ Crore)

		GFCF		*Percent Share in GDP of GFCF*	
Year	*GDP*	*in Agriculture*	*for Agriculture*	*in Agriculture*	*for Agriculture*
(1)	*(2)*	*(3)*	*(4)*	*(5)*	*(6)*
1980-81	4,01,128	13,721	17,279	3.4	4.3
1985-86	5,13,990	13,061	17,656	2.5	3.4
1990-91	6,92,871	15,805	21,560	2.3	3.1
1995-96	8,99,563	16,824	25,283	1.9	2.8
2000-01	11,98,685	18,364	27,946	1.5	2.3
2001-02	12,65,429	19,880	28,830	1.6	2.3

(Source: GOI, 2003a.)

Table 6.13

Public Sector Contribution to Gross Fixed Capital Formation in and for Agriculture at 1993-94 Prices

(₹ Crore)

Year	GDP	GFCF		Percent Share in GDP of GFCF	
		in Agriculture	for Agriculture	in Agriculture	for Agriculture
(1)	(2)	(3)	(4)	(5)	(6)
1980-81	4,01,128	7,358	9,855	1.8	2.5
1985-86	5,13,990	6,005	9,224	1.2	1.8
1990-91	6,92,871	4,871	8,706	0.7	1.3
1995-96	8,99,563	5,318	9,631	0.6	1.1
1999-00	11,48,442	4,637	9,902	0.4	0.9

(Source: GOI, 2003a.)

Second, when shortages take place worldwide there is little to import at cheap prices (like in 2008) so that the price rise can be steep. Since India tends to be a large buyer, whenever there is a report of India entering the market immediately international prices firm up. Government has to be then ready to subsidise the imports but in the new policy framework this is not feasible. In fact, subsidies are expected to be reduced. In this context, it is evident that India is short of pulses and oilseeds but is not able to import them to moderate their prices in the internal markets, which could have allowed the poor to afford more of them to get their essential protein and fat requirements. The international markets do not have the surpluses to enable India to buy cheaply.

Third, one cannot forget the lesson of the food shortages of 1966-68 when India lived from "ship to mouth". India received aid but had to pay a heavy price for it (*see* Chapter III). Thus, it is always possible that in the case of a critical item like food, interested powers can use shortages to extract a price. Some argue that this is paranoia of the nationalist minded people. Why is it that the USA wants control over oil resources when it can import it and already does so on a large scale? Its policy in the Middle East, Central Asia and other oil producing countries, are governed by the desire for long-term control over this critical resource. Its war in Iraq and tight control of Saudi Arabia and Kuwait are a part of this policy. It maintains large strategic reserves for this reason. The US can clearly be accused of paranoia about energy but it believes that it must protect its long-term interest. Further it also maintains self-sufficiency in food through subsidies even though less than one per cent of its population is employed in agriculture. USA, with

global long-term interests has shown that it would use any instrumentality to keep control over other nations. Is food not the most critical item for human survival and if so, why would it not be used for blackmail and as an instrument of foreign policy for making countries fall in line? If that is accepted, then India needs to be concerned about its food security.

Finally, food-grain production is also associated with culture. Japan also does not allow its small farmers to go out of business even though that has meant expensive rice. It argues that this is associated with its culture. Indeed, in India also agriculture is associated with festivals and cultural practices but the rulers are willing to let these be compromised.

It is in this sense that Indira Gandhi in the mid-1960s understood the importance of food security and accepted to go in for Green Revolution in spite of the drawback pointed out by those who were worried about its negative implications for aggravating rural disparities and its impact on the environment (due to the use of chemicals). Investment on setting up of agricultural universities and extension services was increased substantially. New varieties of seeds were developed for different climatic zones. High-yielding varieties of crops were evolved and propagated. Cropping cycles changed across the country. For instance, paddy which was hardly grown in Punjab, spread in that State.

Disparities in agriculture across the different categories of farmers and across regions and States spread. Since the new varieties required more intensive application of inputs, especially water, the Green Revolution really benefited the irrigated areas. Private irrigation increased with the digging of wells and use of diesel pumps. The need for capital investment grew and small farmers who could not afford all this became indebted and slowly sold out to turn into casual labour.

As technology led to more mechanisation to enable farmers to take multiple crops from land, labour got displaced. In agriculture, where free markets prevail and employers are free to "hire and fire", employment generation is on the decrease rather than on the rise. This undermines the idea that free markets lead to greater employment. Whether employment is generated or destroyed depends largely on the nature of technical change and the kind of control over production in society. If profit is the driving force then technical changes that displace labour would be encouraged, labour would be treated as expendable and its increased exploitation would be seen as desirable even if that makes society less civilised. Man simply becomes a sophisticated machine, which can be switched off or on depending on the market conditions.

4.4 Agricultural Prices, Taxes, Subsidies and Surplus Generation

An important aspect of Indian agriculture has been its capacity to retain the surplus it generates and to reinvest it for increasing the productivity and creating a surplus. Since independence, this sector has been seen as a source of surplus for industrialisation. Through the planning process the idea was to spend more and more of the nation's resources into creating an industrial base and usher in modernisation. While the profitability of the industrial sector has been enhanced through various devices and that is seen to be legitimate, profitability in agriculture is grudged.

The price mechanism is different in agriculture and industry (Kalecki, 1971). In the former, there are no national monopolies or oligopolies while in the case of the latter there are both monopolies and oligopolies. Thus, while in agriculture no entity in the market can fix prices and demand and supply play an important role (or traders can use shortages to increase prices but the farmers get little benefit from that) in the case of the organised non-agricultural sectors, prices are fixed as mark-up prices with the degree of monopoly playing an important role (*see* Kumar, 1982).

The agricultural sector has been forced to depend on government for price fixing through the CACP (Commission for Agricultural Costs and Prices) earlier called APC (Agricultural Prices Commission). This body determines the bare costs of producing the crops. It imputes very low wages for self-work and a low value for owned implements. While in the case of industry, generous provisions are allowed for depreciation to save taxes (for instance, in the case of computers, one can get 50 per cent depreciation in the first year and in the case of cars 30 per cent) in the case of agriculture this is not so. In the case of agriculture, prices are sought to be kept low because of poverty. This results in a vicious cycle of low wages and low prices, creating poverty in this sector. These relatively low prices then result in higher levels of real incomes in the non-agricultural sector. The political leadership is usually more sensitive to the urban lobbies than to the rural lobbies because it worries more about their anger.

Industry gets huge tax expenditures (GOI, 2011 gives a figure of ₹ 5,00,000 crore), which are like subsidies, but much lower levels of subsidies to agriculture are grudged. The per cent of population that benefit from the former is small but agricultural subsidies benefit a far larger percentage of the population directly and the entire population indirectly. Agricultural subsidies for water, electricity and fertilisers are grudged by the business lobbies. The asymmetry is stark.

It is argued that there is no tax on agricultural incomes. However, given the exemption limits and concessions, income taxation begins at around 600

per cent of the per capita income of the country. Further, given the low incomes earned by most agriculturists very few of them would fall in the tax net. Finally, when the price of agricultural produce is kept low, it implies a tax on agriculture and it has to be paid by every agriculturist and even by those who earn far less than the taxable income. This can only be compensated by subsidies but that is grudged. In contrast, businesses earn huge profits and declare dividends of 50 per cent and above but they are not pressured in the same way to lower their profits by lowering their prices. Actually, higher profits are lauded as a sign of a well-run company and when these lead to a boom in the stock markets that is considered to be a sign of the economy's good performance.

The reason why this state of affairs prevails is that the leadership of the farming community is provided by those who are now businessmen or have the aspiration to become one. In the recent protests against acquisition of land for Special Economic Zones (SEZs) and other large projects, the demand has been for increased compensation and not for preserving a lifestyle. Surveys show that most farmers want to leave this sector and shift to urban work. This feeling is especially strong among the youth who want to get compensation for land and work in factories and offices.

It is argued by the rich farmers' lobbies and the liberalisers that the price mechanism is not allowed to work in agriculture and if markets are freed then agriculturists will benefit. This ignores the idea that the free market price mechanism is not appropriate to agriculture. In the past (1950s and 1960s) it resulted in wide fluctuations depending on the rainfall conditions and the past prices. Cultivators lost incomes when prices fell sharply in a good crop year and the landless and marginal farmers who depend on the market for purchasing their requirements suffered in times of drought as prices rose sharply. The benefit of both, the higher prices and the fall in prices invariably accrued to the middlemen — the traders, the money lenders or the rich farmers — and not the small farmers. The actual farmer receives only a fraction of the price at which the agricultural produce is sold in the retail markets.

In order to balance the various interests in agriculture, the government went in for dual pricing and procurement mechanisms (*see* Kumar, 1982 for its detailed functioning and in the case of sugar *see* Kumar, 1980). Procurement at a minimum declared price largely prevents the price from falling below that level when there is a surplus (or during the post-harvest season when a large part of the crop comes to the market in a short span of time). This enables the government (through the FCI) to build up stocks that can be used to keep prices from rising when there are shortages (in bad crop years) or flows decline (in the lean season). The stocks are released through the PDS at fixed prices. Thus, the population covered by the PDS gets an as-

sured minimum amount at a fixed price, no matter what the free market price is. The better off sections who wish to buy more go to the free market to get the balance of their requirements. The government, through these releases, is able to moderate the agricultural prices — neither do they rise steeply nor do they fall sharply. This scheme of things is to the benefit of both the producers and the consumers. Even those not covered by the PDS, like the rural poor, benefit through the stabilisation of prices.

It is also suggested that the price mechanism will enable farmers to take more rational decisions and shift to more profitable crops as relative prices change. This may be true for the market-oriented rich farmers who grow crops for a profit. However, they do not constitute the entire agricultural sector. For the large numbers of small, marginal and even middle farmers food is their livelihood and subsistence. They usually do not grow other crops and then buy food items in the market. They aim for a certain level of self-sufficiency. For them the price signal is not important. For some, it may not be a question of subsistence either since they are coercively involved in the market because of credit and other factors. For such farmers it is the creditors who decide the crop they plant. They may not even receive the benefit of the price change which may be absorbed by the creditor.

In many cases, the farmer's decision is about the cropping cycle which may run over several seasons so that changes in the price of one crop may not be able to influence their decision as to what they should grow. The whole cycle of crops may have to be changed. For instance, in the case of sugarcane the farmer may take two crops — one after the other — and it may be interspersed with growing legumes. The farmer also has to see what his alternative cycle may be as well as its profitability. In other words, the response to prices may take place with delay and may depend on many other factors.

There is also an argument for opening up the agriculture sector to international competition. Under the WTO, this has happened substantially since 1999. It is suggested that with the low wages India can do well by supplying cheap food. However, food is subsidised in the important surplus producing countries / regions (like USA and Europe) and India cannot match these subsidies. Most Indian farmers are small so that they would have to depend on traders who will take the bulk of the profits. International grain trade is in the hands of six big companies who dominate the market. It is these companies that are likely to take most of the benefits from the opening up of the sector and not the Indian farmers.

Finally, the Indian consumers have to pay higher prices when food items are exported. The export of good quality mangoes and basmati rice raises their prices to such high levels that only the rich Indians can afford them. Some argue that if these good quality products are exported and with the

foreign exchange earned, cheaper quality rice and food stuff are imported, the poor would benefit. The argument is flawed because the exporters are not necessarily going to import the cheaper quality goods. They are profit maximisers and could import anything else or even nothing. Even if imports take place they may not be cheap (like in 2008) and may require a subsidy which the government is against now. In other words, there is no guarantee that prices in India could be controlled through exports and imports.

Surpluses in agriculture available for investment depend on the relative incomes agriculturists receive for their produce. This depends on the relative costs and prices in agriculture *vis-a-vis* the non-agricultural sector. These are reflected in the terms of trade between agriculture and non-agriculture. Usually the wholesale price ratio is used to reflect the terms of trade. However, this is an incomplete indicator of the surplus because as indicated earlier a large number of farmers do not receive wholesale prices. They receive a lower price, which reflects the degree of local monopoly of the trader to whom they sell their produce. Further, the costs vary with productivity and weather conditions. In a drought year, productivity falls and costs rise so that even when the prices of agricultural commodities rise, incomes may not rise for a majority of the farmers.

In non-agriculture, there has been a rapid rise in productivity because of technological advancement and profits have risen, *ceteris paribus*. In the case of agriculture the rise in productivity has not been so rapid, consequently, income terms of trade have mostly shifted against agriculture even when the price terms of trade have shifted in favour of agriculture. Thus, the share of surplus accruing to agriculture has declined and this is an important reason for the decline in investment in this sector.

Further, due to rising profitability of non-agriculture, even the surplus from agriculture gets diverted to non-agriculture, thereby reducing investments further. Agriculturists whose land is acquired use the compensation received to either increase consumption or invest in non-agricultural areas, such as in small businesses. This has further lowered the share of investments in agriculture and reduced its dynamism.

5. Manufacturing: Struggling to Modernise

The secondary sector consists of both infrastructure and other industries. The focus in this section will be on manufacturing while infrastructure will be dealt with in Chapter IX. In the pre-independence period, due to the low investments in all these areas, like in the rest of the economy, this sector developed slowly and lagged behind that in the advanced countries. It operated with low-level of technology. There was a substantial unorganised or small scale or cottage component in this sector.

This sector was strongly affected by colonial rule (*see* Chapter II). The British were interested in the Indian market for manufactured goods so that they could expand their industry and pursued policies that led to Deindustrialisation. Not only did existing industries close down but little investment was made in developing industries. There was even less effort in developing technology. The lack of research meant that Indian industry could not develop technology and compete with international industry. Lack of infrastructure (*see* Chapter IX) meant that scale economies in production could not be used. It was only in the inter-war period that some industries developed. Consequently, in 1947 due to neglect and active connivance against it, Indian industry was backward with little modern large-scale production and most of it being confined to the small and cottage sector for local consumption. It was not competitive with global players and suffered from lack of dynamism and severe colonial disruption. Whatever industry existed was mostly linked to the British interests and depended on imports or was based on processing of indigenous raw materials.

5.1 Key Changes in the Manufacturing Sector since Independence

The desire to modernise the economy and catch up with the advanced countries meant that focus was on setting up modern industry. Due to shortage of internal resources, investments were limited and even these were pre-empted by the modern sector so that the development of the rest of the industrial sector was slow. Efforts to develop R&D was for the modern sector and hardly for the small and cottage sectors. As the advanced sector was capital intensive it generated little employment. The consequence was that soon industry became very heterogeneous with different sizes of capital — large, medium and small — and different categories of workers — organised and unorganised and skilled and unskilled.

In the 1950s and the 1960s, with the experience of colonisation and exploitation, there was a drive to attain self-sufficiency. This led to import substitution. The BOP problem due to the drive for modernisation also led to a shortage of foreign exchange, which also necessitated import restrictions. Indian industry operated with low technology compared to the advanced economies so that it was viewed as an "infant industry" and it was accepted that it required protection. It was also assumed that India could not be export-oriented. So, this sector was oriented to the internal markets and given significant protection by resorting to high tariffs.

Self-sufficiency required the creation of a public sector in the modern sectors (*see* Chapter V, Section 5). This was also for development of technology

and for the mobilisation of the surpluses of the modern sector for investments. Protection, however, led the private sector to behave like rentiers and charge high margins. It undertook little R&D and could not develop the capability to upgrade its technology. So, it resorted to repeated imports of technology. To be fair, it was also the result of faulty S&T policies of the government (*see* Chapter XI), which could not provide a stable environment for research. But business houses too, need to share the blame for this since they were a part of the ruling elite and lacked perspective. As expected, the public sector invested more in R&D and acquired some capacity to absorb and generate technology. But this received a setback after 1991 when due to a policy paradigm change profit-making took precedence over all other things.

As difficulties arose and various national needs came to the fore the public sector was expanded into newer areas. This forced the government to channelise resources meant for development of the traditional areas, which remained backward, to develop the public sector. Little emphasis was laid on small innovations, like smokeless chulha for the millions of homes where women suffered from smoke while cooking or the design of efficient bullock carts for rural transportation, which could reduce the stress on the bullocks and speed up transportation. Development was based on the trickle-down effect with little realisation that the use of advanced technology independent of the traditional sectors would not lead to trickle-down but to further marginalisation of the latter by sucking out all the resources from it.

The Indian industry changed in character and diversified after the mid-1950s with the appearance of the modern sector. The sector saw high growth between 1953-54 and 1956-57. After the interregnum of the drought of 1957-58 there was a spurt up to 1964-65. However, the big drought of 1965-67 derailed the growth of this sector for the next ten years. To sustain growth, given that the economy was largely private sector and dependent on the monsoons, there was a need to broaden the market. This was limited due to the dependence on the trickle–down effect. The size of the market had to expand to sustain the industrialisation process. As soon as the economy hit a major agricultural crisis, like in 1965-67, the strategy of trickle-down faltered — demand stagnated and declined and industrial growth slowed down. Industrial sickness grew, for instance, in the engineering, textiles, jute, coal and sugar industries.

The strategy also started to fail because of the breakdown of consensus amongst the ruling elite. Those in the traditional sectors (especially in agriculture) saw that they were losing out to the business class and started to demand more concessions. The business class trying to make extra gains resorted to the black economy by subverting policies — such as licensing and taxation and used corruption to subvert policies. This process accelerated in the 1960s and the 1970s leading to significant policy failures. This also became a cause

of the failure of the public sector, which had to contend with large-scale manipulations by the politicians, businessmen and the executive. This drained the surplus from the public sector, which was then not left with enough resources to reinvest and became dependent on the budgetary provisions.

The regulation of capacity through licensing was misused. Big players cornered licences and created shortages by not setting up the requisite capacity. Oligopolies and monopolies appeared in various industries in spite of the existence of the growing public sector so that there were shortages, which aggravated the economic situation. Rationing also did not succeed due to corruption. This led to periods of high inflation in the economy — not only due to drought but also due to manipulated shortages.

The small-scale industry also expanded as an ancillary to the large and medium scale and as service provider. There was not only reservation for this sector (*see* Table 6.14) but it also had tax concessions. In fact, this sector, which has been largely unregulated, has paid low wages, has hardly provided any social security, or paid taxes or incurred other regulatory costs so it could produce cheaply in spite of having low technology. However, it lacked in marketing and finance, so could not directly enter the market. Its cost advantage led to its widespread misuse by the large-scale producers who bought from this sector and labelled it as their own and sold it at a high profit. This was the case in say, textiles, where the large-scale mills used the powerloom sector or in the case of electrical household goods. The independent small-scale and cottage sectors suffered due to lack of marketing, finance and technology. When industry faltered this sector also faced problems of sickness.

MNCs operating in the economy were sought to be localised in the 1970s with the promulgation of FERA, which required dilution of equity held by the parent firm in favour of the public. Corporation tax rate was higher for them compared to the Indian firms. They had to agree to a phased manufacturing programme (PMP) to use more of Indian inputs in their products. They were also required to go for "dividend balancing" whereby, they had to earn foreign exchange to cover the payment of dividend to the parent company. In the case of pharmaceuticals, process patents enabled the Indian firms to produce the molecule through a different route. This led to the rapid expansion of the Indian pharmaceutical companies and the availability of cheaper medicines in the Indian market.

After the mid-1970s, the industrial sector again started picking up. The public sector matured and provided greater depth to the economy producing a wide range of goods, such as metals, chemicals, fertilisers, pharmaceuticals, machinery, machine tools, power plants, petroleum products and defence requirements (i.e., rockets, ships and tanks). This gave India relative

Table 6.14

Trend in Reservation of Items for the Small Scale Sector

Date of Notification	*Number of Reserved*	*Number of Dereserved*	*Cumulative Total*	*Date of Notification*	*Number of Reserved*	*Number of Dereserved*	*Cumulative Total*
Phase 1				*Phase 2 (Contd. . .)*			
11 April, 1967	47	0	47	18 Oct, 1984	1		873
19 Feb, 1970	8	0	55	30 May, 1986	7	14**	869
24 Feb, 1971	73	0	128	30 Oct,1986	1	7	863
11 Nov, 1971	0	4	124	13 Feb, 1987	0	13	850
26 Feb,1974	53	0	177	20 July,1987	0	3	847
5 June, 1976	3	0	180	18 March, 1988	0	1	846
26 April, 1978	324	0	504	3 March, 1989	3	14	835
Phase 2				31 July,1989	1		836
26 April,1978*	807		807	3 April, 1997	0	15	821
30 Dec, 1978		1	806	3 Feb, 1999	0	9	812
12, May, 1980	27	0	833	1 Jan, 2001	0	1	811
19 Feb,1981	1	1	833	29 June,2001	0	14***	799
3 Aug, 1981	9		842	20 May, 2002	0	51@	749
23 Dec, 1981	2	13	831	3 June, 2003	0	75@@	675
14 Oct,1982		3	828	20 Oct, 2004	0	85@@@	605
19 Oct,1982	9		837	28 March, 2005	0	108@@@@	506
3 Sep, 1983	35		872	16 May, 2006		180	326
				22 Jan, 2007	0	87	239

(Source: Ministry of Small Scale Industries (SSI) and Agro & Rural Industries. Taken from Economic Survey, 2006-07, Chapter on Industry. P. 151.)

Notes:

* In 1978, it was decided to recast the reserved list by following codes adopted in the NIC and in the process the list of dereserved items expanded from 504 to 807.

** Since it included three sub-items, the effective number comes to 11 only.

*** Since it included two sub-items, the effective number comes to 12 only.

@ Since it included one sub-item, the effective number comes to 50 only.

@ @ Since it included one sub-item, the effective number comes to 74 only.

@ @ @ Since it included 15 sub-items, the effective number comes to 70 only.

@@@@ Since it included 10 sub-items, the effective number comes to 98 only.

self-sufficiency in low and intermediate technology goods. The teething troubles experienced in the new public sector plants during the 1960s were overcome and absorption of R&D in the public sector gave India a bargaining position *vis-a-vis* the foreign firms. For instance, power, fertiliser and steel plants made in India started to function better.

The private sector also diversified from producing textiles and other low-value goods to higher value goods, like automobiles and refrigerators. This also reflected on India's exports, which moved up the value chain. With improvements in infrastructure, like telecommunication, roads, railways and ports, industry could think of producing on larger scale and exploiting scale economies.

To fulfil the goal of production of essentials and help reduce poverty by preventing the diversion of resources, the production and import of luxury goods was restricted. Consumption of cloth, tea, coffee and electricity rose during the period. The demand for luxury goods was rising due to the increasing size of the middle class but was repressed. The density of telephones, number of two-wheelers and refrigerators and so on increased but demand far outstripped supply and there were long waiting lines for these products. This led to widespread smuggling of luxury goods and rapid increase in corruption in the production and distribution channels.

The black economy grew rapidly in the 1970s leading to fudging of data on production to evade taxes of various kinds (*see* Kumar, 1999), thereby affecting the reliability of data. Profits were siphoned out and often through flight of capital, they were taken out of the country to tax havens. As a result, investment in the country rose slowly. Often businessmen were more interested in the black profits than in the declared white profits.

Indian businessmen controlled their firms through small ownership of equity capital because the public sector financial institutions like Unit Trust of India (UTI) and LIC held large chunks of equity. Since the government did not have a policy of destabilising managements the owners could continue with this and divert their capital for other purposes. Thus, manipulation in the corridors of power to get loans and licences was very important for businessmen and they maintained large liaison offices in New Delhi and the state capitals.

The IMF conditionalities imposed in 1980 led to the liberalisation of the luxury goods sector. As discussed in Chapter V, consumerism was encouraged so that electronics items, such as colour televisions and white goods, like washing machines and automobiles made their appearance in a big way. To begin with imported kits were assembled in India but over time these goods started getting manufactured within the country. For instance, ancillaries for the automobile industries developed rapidly and India is now becoming a hub for the production of auto ancillaries. Due to India's large market for small cars it is now becoming a global producer of small cars. Indian policy also concentrated on niche markets, such as, in the 1980s and early 1990s, there was the production of black and white televisions.

Imports and exports were encouraged with the idea that this would upgrade both technology development as well as industry. However, this had

an adverse impact on the small scale sector and it did not encourage R&D because it became easier to import technology. The repressed demand for white goods could be met through expanded production of these goods and this led to an increase in the rate of economic growth in the country.

The public sector started to be downgraded due to the new philosophy of greater dependence on the private sector initiated by the conditionalities. Capital intensity of the economy started to increase and this led to the slowing down of creation of new jobs and unemployment rose (*see* Section 2 above and Chapter X, Section 3).

The introduction of the NEP in 1991 led to further structural changes in Indian industries. There was easier flow of capital and technology from abroad. Restrictions on MNCs were not only removed but they were welcomed. The automobile sector was encouraged in a big way. The private sector was encouraged to enter the areas reserved for the public sector. Foreign direct investment (FDI) was encouraged in infrastructure and Enron is an early example of this. Restrictions on industry, Indian or foreign, were removed or diluted. Licensing, MRTP, FERA and other such policies were either diluted or eliminated. Tax rates on businesses were lowered.

The rate of growth of industry slowed down after 1991, except for a brief period of 1994-96. Again it picked up pace from 2003-04 due to the policy of "growth at any cost". The liberal policy of imports had an adverse impact on the small-scale sector and on labour intensity of production, which led to jobless growth. The rise of the large-scale sector was to an extent at the expense of the small-scale sector and that is why the rate of growth of this sector was not impressive. R&D suffered since now technology could be imported and there was little pressure to develop it internally. This trend was accentuated by the new provisions of WTO after 1995. Initially most of the FDI came in the consumer goods sector and not in infrastructure or high technology production.

5.2 Some Issues Pertaining to the Manufacturing Sector

Since1947 India had understood the need for self-sufficiency because of its experience during the colonial period. Hence, the emphasis on industrialisation based on indigenous strength. This led to diversification of Indian industry and the setting up of the more modern sector. Table 3.2 shows that both in the small-scale sector or unregistered industry and registered industry the production pattern has shifted from the traditional to the more modern sector. Large-scale industry, which has gone in for modern technology, requires large markets, capital, finance and marketing. Unfortunately, this sector using modern technology has not generated much employment and that is why the dependence on the small-scale sector remains substantial.

Since independence because of the large size of the agricultural sector and because a bulk of the population has remained dependent on it, the market for industry was dependent on the size of the agricultural sector. Thus, whenever there was a drought agricultural production declined and with it the overall demand also fell leading to a slowdown in the economy. This pattern saw a change from 1979-80 when even though agriculture declined, the industrial sector continued to grow. This was because the economy became more dependent on the services sector, which grew to become the largest sector in the economy. The emphasis on industries from the mid-1950s led to a lowering of the importance of agriculture and this resulted in continuing backwardness in Indian agriculture and its inability to cope with the drought of 1965-67. By the end of the 1980s the industrial sector had become diversified and perhaps among the developing countries India had one of the most diversified and advanced industrial sector.

Industries lost profitability due to the changing structure and nature of competition in the economy and lack of technological dynamism. This has been true especially in the small-scale sector, which has lacked the capacity to develop new technology. Periodically, industries became sick due to loss of profitability and due to siphoning out of capital. In the case of the large-scale sector engineering goods industry in Bengal, coal mines and textile mills became sick over a period of time. And to protect employment the government was forced to nationalise these industries. These units, however, became a millstone around the neck of the public sector as they kept on accumulating losses and this gave a bad name to the public sector.

In India, the industrial sector has seen the rise of monopolies. Big business houses have various devices to hide the real ownership of companies and create larger monopolies. That is why in the mid-1960s the Monopolies and Restrictive Trade Practices Commission was set up and the MRTP Act was implemented to prevent the growth of monopolies in the Indian economy. Licensing was grossly misused to create monopolies and monopolistic practices became widespread.

India has had a large number of multi-national corporations (MNCs) operating in it since independence. After 1947, the managing agency system continued which enabled control by foreign firms but this was eliminated in the 1960s. In the 1970s foreign companies were forced to dilute their shareholdings under FERA. This was done to reduce the hold of foreign capital on Indian industry and to give greater scope to Indian capital to grow within a protected market. The presence of the MNCs with access to the latest technology from their parent organisations was always a threat to any R&D activity carried out in Indian industry. FERA led to the dilution of equity of many MNCs but some like IBM and Coca-Cola preferred to leave the Indian market. Overall, it gave a fillup to Indian industries.

The growth of the pharmaceutical industry since the mid-1970s is a case in point. The manner in which MNCs thwarted the development of technology in India is amply illustrated by the experience of CDOT in the development of telecommunications in the country. In the mid-1980s when the MNCs refused to give technology for creating the large exchanges, CDOT was set up to develop the exchanges. By early 1990, after the small and medium exchanges had been developed and the large exchange was about to be developed, the MNCs started offering their technology to India. They also took away the best talent from CDOT by paying its personnel higher salaries. In 1991, when the economy was opened up and the emphasis on the public sector diluted , CDOT's efforts went down the drain. Indian industry has upgraded its technology but that is based largely on repeated import of technology, except as already mentioned above in the case of the public sector. The private sector has not taken steps to initiate the development of technology because of the high risks involved and its belief that it can use monopolistic policies to make higher profit.

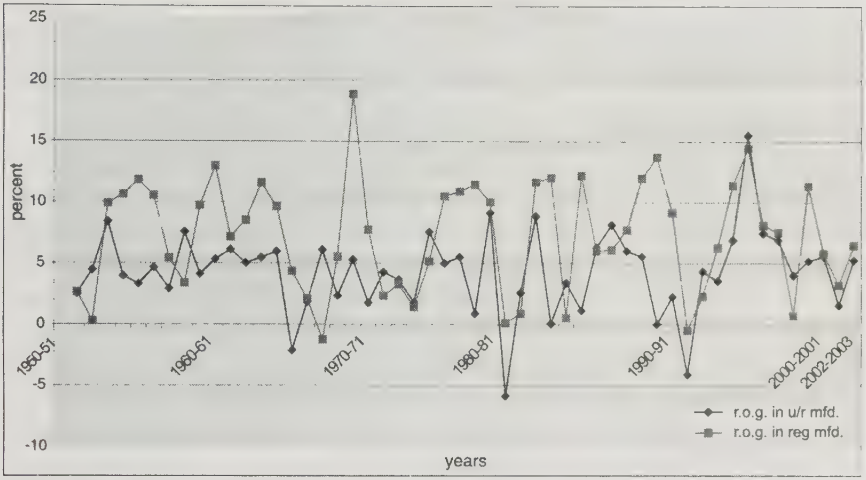
Indian industry has been involved in the generation of black profits on a very large scale. As will be discussed in Chapter VIII, there are a large number of ways of generating black incomes. Thus, Indian industry has found a way of making large profits without putting in place technological changes. Its emphasis has been on monopolistic policies to make a profit rather than to compete. This was enabled by the nexus between the corrupt businessmen, corrupt corporate sector and the executive class in the country (Kumar, 1999). A large part of the black profits are siphoned out of the country into tax havens, like Switzerland or Luxemburg. Thus, Indian industry's shortage of capital is only in the white economy while a large part of its capital lies abroad. A part of this has been brought in after 1991 to prevent takeovers through the stock markets. Thus, one cannot study or understand the trends in Indian industries without taking into account the country's black economy.

5.3 Issues Relating to Small Scale Sector

In India, over a period of time the share of the small scale and unorganised sector has declined while that of the organised sector grew (Graphs 6.3 to 6.5). An increasing amount of investment has gone into the large-scale sector partly because of the growth of the public sector (Table 3.7) and also because Indian capitalists gained in size and accumulated capital. The small-scale sector, operating with low technology, had to be protected because it was the provider of large number of jobs. Unfortunately, reservation in this sector has been progressively diluted, especially after the NEP was launched in 1991 and imports were liberalised — starting in the early 1980s. The latter accelerated after 1991 and further with the implementation of the WTO provisions post-January 1995.

Graph 6.3

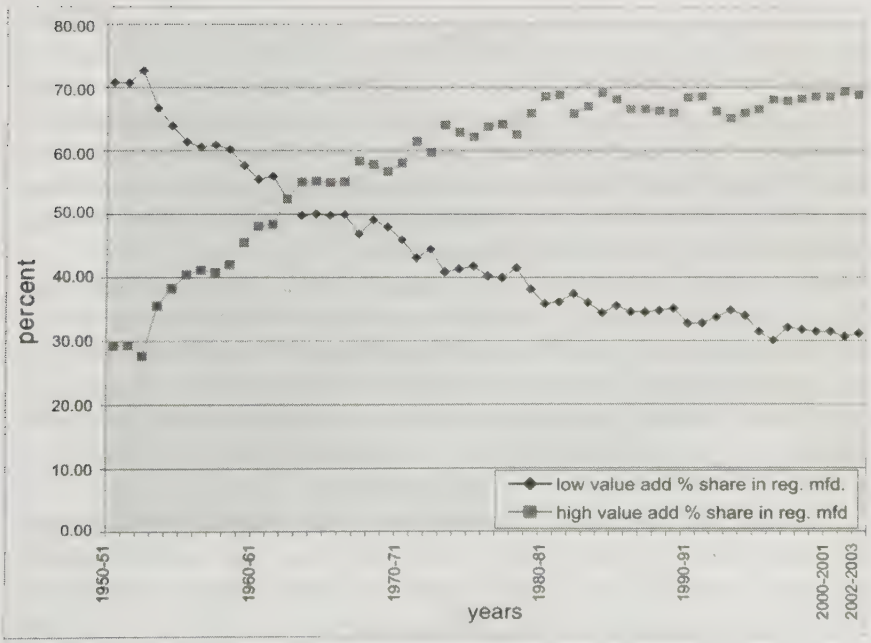
Rate of growth in unregistered and registered manufacturing



(Source: National Accounts Statistics.)

Graph 6.4

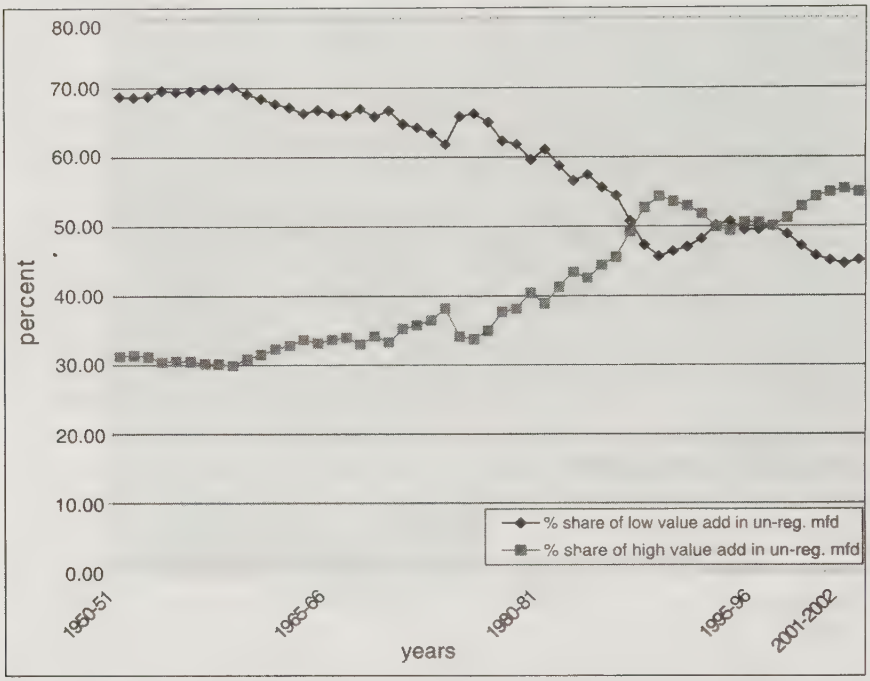
Per cent share of low and high value added sectors in registered manufacturing



(Source: National Accounts Statistics.)

Graph 6.5

Per cent share of low and high value added sectors in unregistered manufacturing



(Source: National Accounts Statistics.)

The small-scale and tiny sectors of Indian industry are a necessity since they produce cheap and low-quality products for the poor in the country. As already argued above, they also produce cheaply for the large and medium sectors. So, is the persistence of the small or the unorganised sector working with low technology bad for the economy?

It is mostly a residual and a self-generating sector with little help from the government and the organised sectors of the economy. Often for lack of other work people start activity that is counted as tiny sector. It often reflects the helplessness of the citizens since they have nowhere else to go to earn a livelihood. In a sense, the existence of this sector is the result of the contradiction of a system gone wrong since it was based on the expectation of rapid trickle–down, which has not yet materialised.

It is based on extreme exploitation, both of the workers by the owners and of the owners by the traders, who market its product and the industry that buys its output. Thus, it largely pays low wages, earns low profits and has long hours of work. Due to shortage of working capital often it faces sickness and closure. It has to depend for capital on the black / informal

market where it has to pay high interest rates. Since it has little capital to begin with it can get easily wiped out in times of trouble. It often cuts corners to produce cheap for the poor and for the big industries which uses these items as inputs to produce the final product. It violates most laws and indulges in acts such as bribing the local police and the bureaucracy. Its output is not properly recorded and is often mis-estimated.

The small-scale sector catering to the poor and employing the poor often forms a self-contained circuit of cheap low quality production for the poorer sections. In a sense, its existence absolves the ruling elite and the system of its responsibility towards the poor. They can claim that workers are able to get work. It is like a safety valve for the economy — workers do not revolt due to lack of work and the poor get cheap goods.

6. Tertiary Sector: Becoming Dominant

In this section the growth of the tertiary sector and its role in the economy will be dealt with in a general way without going into the specificities of any of the sub-components (*see* Section 3 above). Banking and financial services, government and consumerism have been dealt with in Chapter V. Education is dealt with in Chapter XI and health and urbanisation (and related services) in Chapter X.

As the name suggests services are intangibles. They are of two kinds — productive and consumptive services. The former helps in production of both goods and services, such as trade and finance, while the latter are consumed, for instance, services given by restaurants, entertainment firms and educational institutions.

The colonial rule had its impact on this sector as well — constituting another form of disruption in society. As discussed above, both industry and agriculture suffered under British rule with little development in these sectors. Further, colonial rule required control over the population and import of goods and export of raw materials. As a result, cities were developed as centres for governance and ports for foreign trade. Thus, cities did not develop as industrial cities but as hubs of administration and the military with cantonments. These cities had to be interlinked to each other and to the ports. The railways served this purpose. Roads were few, especially in rural areas. In brief, in the interests of the Raj the colonial rulers developed services but not the other two sectors. No wonder, in 1950-51 the tertiary sector had a 30 per cent share in GDP, much larger than the Secondary sector (*see* Graph 3.4 and Table 3.6).

6.1 Growth Experience of the Services Sector since Independence: Impact on Economic Growth

The services sector has four broad sub-components as shown in Section 3 above. Their growth performance since independence has been uneven (Table 6.15). The growth of the services sector itself has been uneven. Prakash (2009) shows that based on growth rates of this sector as a whole growth may be divided into eight phases. These are different from the eight phases defined on the basis of much broader parameters presented in Chapter IV, Section 4.5.

The average rate of growth of the tertiary sector as a whole has been positive since 1950-51 and it has generally grown faster than the other two sectors so that its share in the GDP has risen over the entire post-independence period (Graph 3.4). The share of the tertiary sector rose rapidly till 1956-57 and then stagnated until the mid-1970s. It again rose for a few years to plateau between 1976-77 and 1982-83. After that it has risen steadily.

Table 6.15

Services Sector Average Decadal Growth Rate

	1951-52 to 1959-60	*1960-61 to 1969-70*	*1970-71 to 1979-80*	*1980-81 to 1989-90*	*1990-91 to 1999-00*	*2000-01 to 2005-06*
1. Trade, hotels & restaurant	4.86	5.15	4.32	5.94	7.48	5.55
1.1 Trade	4.77	5.2	4.32	5.92	7.29	5.50
1.2 Hotels & restaurants	4.68	5.27	4.35	6.27	9.72	6.06
2. Transport, storage and communication.	5.54	5.84	5.84	6.03	7.49	6.15
2.1 Railways	4.84	4.31	3.42	4.34	3.45	4.07
2.2 Transport by other means	5.99	6.38	6.54	6.93	7.12	6.59
2.3 Storage	2.40	3.89	9.95	2.74	2.02	4.20
2.4 Communication	6.76	6.77	6.58	6.01	14.94	8.21
3. Financing, insurance, real estate and business services	3.07	3.22	4.32	8.66	8.05	5.46
3.1 Banking & insurance	8.00	5.75	7.82	10.56	9.85	8.40
3.2 Real estate & ownership of dwellings	2.29	2.73	3.14	7.67	6.82	4.53
4. Community, social & personal services	3.51	5.24	4.12	5.88	6.47	5.04
4.1 Public administration & defence	4.99	7.72	5.57	7.02	6.15	6.29
4.2 Other services	2.87	3.86	3.09	4.95	6.81	4.32

(Source: NAS, Various Issues.)

Within the tertiary sector the various sub-sectors have grown at varying rates but they have mostly grown faster in the period after the 1980s (Table 6.15), as compared to the preceding thirty years. As shown in Prakash (2009), the fastest growth has been in the transport, storage and communications group whose share has risen from 3.2 per cent of GDP to 11.4 per cent in 2006-07 — an increase of almost 350 per cent. The lowest growth has been recorded in the community, social and personal services — from 10.6 per cent to 13.4 per cent in the same period — a rise of 26 per cent. The other two groups show a doubling of their share in GDP during this period of 56 years. This suggests that productive services have generally grown faster than consumptive services. As a consequence, in the period after 1980, not only has the share of the tertiary sector been higher but its rate of growth has also been higher. This is the reason for the faster average growth rate of the Indian economy during this period (*see* Graph 3.1).

The decline in the share of the slower growing sector (agriculture) and the rise in the share of the faster growing component (tertiary sector) underlies the step-up in the growth rates during the 1980s. Agriculture, on an average, has never grown fast since it is constrained by land, skills of the workers and slow development of infrastructure in rural areas. There have been a few years of rapid growth in agriculture, of above 10 per cent or even 20 per cent, but these have been the years following a big drought when production recovers after a steep fall. This sector has grown at an average of around 3 per cent per annum, while the tertiary sector has grown at more than 10 per cent per annum in the recent years.

Another consequence of the rise of the tertiary sector has been the declining impact of droughts on the economy. Since the momentum for growth is coming from the tertiary sector and its output is not dependent on rainfall, droughts do not directly affect the growth of this sector. There is an indirect effect through the slowing of the demand for services from the other sectors but that effect is not as large as the direct effect. Hence, after the drought of 1979-80 the rate of growth for the economy has not turned negative even during severe droughts like in 1987-88 and 2009-10.

One of the important factors helping the growth of the tertiary sectors is the rapidly growing black economy (Kumar, 1987a). The mechanism for generating black incomes is related to under-invoicing and over-invoicing practiced by businesses, and this is done through the services sector. The growth of the black economy has two effects. First, data is vitiated so that the recorded growth is less than the actual growth rate. Second, the demand for services from the black economy tends to be substantial so that it raises even further the share of this sector.

The growth of government (various layers of it) and its various functions as reflected in the rise in the ratio of government expenditures to GDP has

also added to the growth of the services sector. The rise in per cent terms has been from around 7 per cent in 1950-51 to about 25 per cent in 2007-08. Within this, the government is spending more on revenue account items than on capital account items. Further, within the former category spending has rapidly increased on items, such as administration, defence, police and transportation, among others. As social conditions have deteriorated and disparities have increased, social tensions have grown requiring greater expenditures on defence and law and order. Some expenditure heads have stagnated or declined as a share (and not in absolute amounts) of GDP, such as, education, health and subsidies. As the fiscal deficit in the budget has increased, especially after 1980-81, the government has cut expenditure on items considered to be "soft". The growth of the black economy has meant the increase in expenditures due to leakages as well as greater requirement of regulatory apparatus, like vigilance and inspectors of various kinds.

Post-mid-1980s, there has been a rapid growth of the software and telecommunication industries. From the mid-1990s, the information technology-related services have grown fast. These are termed as ICT (Information and Communications Technology) or ICE (Information, Communication and Entertainment). Opening up of the economy has resulted in increased demand for Indian services from the advanced countries looking to substitute their expensive workers with cheap labour from India. Internet enables cheap transfer of data and real-time interaction so that services can be provided from a distance. Further, during this period exports and imports have also grown rapidly, especially post-1991, which has added to the demand for services — finance, transportation, storage, trade and communication, among others.

Post-1991, with increasing privatisation, this sector has partly grown faster due to a rise in the prices charged for services, such as education and health. In many cases, lower value services are being replaced by high value services, like, in the case of luxury hospitals and schools charging exorbitant fees. Increasing marketisation has led to greater competition and much greater expenditures on advertising and product differentiation, etc. Further, the finance and trade sub-sectors have diversified with NEP and new opportunities of making money have been created leading to their growth. Rising disparities and concentration of incomes in fewer hands has meant increasing demand for luxury consumption and high margin goods and services, fuelling the growth of services.

In brief, the rise in the growth rate of the services sector has to do with the growing share of the black economy, government and its developmental role, the growth of ICT, foreign trade, privatisation of various services and certain features of NEP.

6.2 Dominant Services Sector at Early Stage of Development: Is It a Problem?

Services tend to be the last to grow in the development pattern of an economy because it is the material goods that are primarily needed to continue life. The advanced countries during their development transited from a dominant agriculture sector to a dominant industrial sector and last of all to a dominant services sector. However, India has not followed this classical pattern of change and instead jumped straight from a dominant primary sector to the services sector (with a share of 60 per cent in GDP). As Graph 3.4 shows, at no point in the last 60 years of this transformation has the secondary sector become the dominant sector. In fact, the services sector was already 30 per cent of GDP in 1950-51 while the secondary sector was about 14 per cent of GDP. It is therefore argued that India has apparently skipped a stage of development. Does it matter?

Not necessarily since technology matters more than the stage of development of an economy in the transition from primary to secondary to tertiary sectors. In the classical development pattern, services were not important during the initial development process because production and consumption tended to be local and a large part of the economy was based on barter. Hence the need for trade, transportation, storage and finance was minimal. Many goods and services were produced within the household or the firm, which obviated the need for services. Scale economies were far less so that there was little concentration of production, and the need for transportation, storage and finance was negligible compared to today's scenario. The advanced countries progressed steadily without jumping stages of technology so that their need for services grew steadily.

In contrast, India and most developing countries have jumped stages of technology in quick succession. At its very low level of development in 1950, India started to import technologies, if not the latest available ones from the advanced countries, much higher levels than was then being used in India. So, it jumped certain stages of technology and at least in the modern sectors scale economies started to make their appearance even though in developmental terms India was backward. Production started getting concentrated in fewer locations and this led to the need for more and more services. Each level of technology has its own requirement of services, with modern technology having the highest requirements. In brief, India in trying to modernise by jumping from where it was to the level of the advanced countries were required much higher level of services at an early stage of development. In that sense, if rapidly jumping stages of technology is not maldevelopment then neither is jumping the stage of development. It is but a reflection of the nature of technology being adopted in the country.

Comparison with the experience of other countries makes it clear that India is not an exception. Barring the socialist bloc countries, where material production was given precedence over production of services, such as trade and finance, other developing countries have moved along a similar trajectory. Partly then the rapid growth of the tertiary sector is associated with the growth of capitalism. As Table 6.16 shows, in 2004 almost all the low and middle income countries have a similar share of services in their GDP (55 per cent). The upper income countries had a higher share (65 per cent). In 1960, the GDP shares were substantially different across the low, middle and upper income countries at 36 per cent, 46 per cent and 60 per cent, respectively. Thus, the growth of the sector has been the fastest for the low income countries and the slowest for the upper income countries. There are major exceptions, like China in the low income category and Saudi Arabia in the

Table 6.16

Share of Services Sector in GDP (%) for Select Countries

	1960	*1965*	*1970*	*1978*	*1983*	*1988*	*1990*	*1991*	*2000*	*2003*	*2004*
Low Income Countries											
Nepal		23	21	26	27	27	26	27	41	39	37
Bangladesh	31	36	37	30	40	40	46	48	49	52	53
China		17	28		18	21	31	32	34	32	35
India	30	34	33	34	38	38	40	41	46	52	52
Pakistan	38	40	41	44	46	49	49	42	50	53	54
Srilanka	44	51	48	34	47	47	48	48	52	54	58
Average	35.8	35.6	37.4	35.5	37.8	39	42.8	42.2	46.2	48.6	50.4
Middle Income Countries											
Philippines	46	46	39	38	42	44	43	44	53	53	54
Zimbabwe	47	47	49	45	57	46	47	49	75	59	59
Egypt	46	45	42	41	47	54	53	52	50	50	52
Thailand	41	45	41	46	50	48	48	49	49	50	46
Brazil	49	48	49	52	53	49	51	57	59	73	78
South Africa	48	48	52	47		49	51	51	66	65	65
Average	46.2	46.5	45.3	44.8	49.8	48.3	48.8	50.3	58.7	58.3	59
Upper Income Countries											
Saudi Arabia		31	31	23	32	50	48	41	45	44	40
Singapore	78	74	68	63	62	61	63	62	66	65	65
USA	58	59	63	63	66	65				75	77
Australia	51	45	55	63		51	64	65	72	71	71
France	52	54		58		59	67	68	74	72	73
Average	59.8	52.6	54.3	54	53.3	57.2	60.5	59	64.3	65.4	65.2

(*Source:* World Development Report, Various Issues.)

upper income category. China is a former socialist country and had deemphasised services for a long time but it is fast catching up as it is becoming increasingly capitalist in nature. Saudi Arabia is the largest oil exporting country and with a relatively small population is a rentier economy with little internal production of other goods. It is heavily dependent on import of goods and services and is not like a typical developing or developed country.

Growth of the services sector not only depends on technology but also on the practices prevailing in the economy. From a colonised nation with weak social and physical infrastructure the imperative of modernisation was that infrastructure be rapidly developed. So, education, health and other vital services had to be expanded quickly and this meant the rapid growth of these services. Thus, the project of modernisation also required a rapidly growing services sector. The services sector also expanded due to the rise in demand for luxury consumptive services due to the rapid increase in disparities and the black economy. So, five star hotels, tourism and entertainment, among others grew rapidly.

India has also been experiencing rapid urbanisation at an early stage of development. Urbanisation is not possible without the growth of services. There is need for electrification, water supply, sewage and sanitation, public transportation and street lighting. Concentrated urbanisation requires water and electricity to be brought in over long distances, increasing the need for power lines and canals or pipelines and adding to costs. Other public facilities such as big transportation hubs — airports, railway stations and bus terminus — are needed. No wonder, concentrated urbanisation is expensive and leads to expansion of the services sector.

Further, the growth in the services sector is also a result of changes in the accounting practices (Kumar, 1987a). What was earlier produced in the secondary sector in-house is now a specialised service, accounted for not in the former but in the services sector. For example, advertising and services of drivers and guards were produced in house and accounted for in the secondary sector but now these are outsourced to specialised agencies whose output is now accounted for in the tertiary sector. Another accounting change is the treatment of what used to be free services, which have now become paid services and, therefore, accounted for in the GDP now (Kumar, 2007b). For instance, cooking at home substituted by eating in restaurants or the work of the housewife being performed by paid maid servants leads to an expansion of the services sector without additional work being done. Growing privatisation, especially in the case of health and education has led to the prices of these services rising rapidly and this leads to an appearance of rapid expansion of the services sector.

6.3 Growth of Services Sector and Impact on Terms of Trade

Growth in the share of producer services has played an important role in increasing the margins at various stages of sales of products. For instance, in the case of agricultural produce, the gap between the price at which a product is sold by the farmer at the farm gate and the price at which it is sold at the retail level is high because of the high margins of trade and storage. Often, the price of the latter is several times that of the former. Thus, the farmer gets a fraction of the price that the consumer pays. Similarly, there are many manufactured products whose consumer price is several times the price at the factory gate. This leads to an increasing gap between the producer and the consumer prices. This is one reason why inflation when measured according to the WPI or CPI shows different patterns.

This also impacts the terms of trade between the agriculture and non-agriculture sectors. As a result of the growing margins both the agriculturists and the consumers feel that the terms of trade are shifting against them. The farmer, as the producer, gets a much lower price than the consumer of agricultural product pays and the farmer, as the consumer of the non-agricultural goods and services, has to pay a much higher price than the one received by the producers of these goods and services. Thus, the farmer gets a lower price than the wholesale price and pays a price much higher than the wholesale price. Similarly, the consumer working in the non-agricultural sector pays a much higher price than the wholesale prices for both agricultural and non-agricultural produce. Hence, the farmer feels that his terms of trade (the ratio of prices paid for agricultural and non-agricultural goods) are adverse while the urban consumer also feels that his terms of trade are adverse. Since neither of the two kinds of consumers pays or receives the wholesale price, dividing the two sectors' wholesale prices does not give the terms of trade relevant to either of the two categories of consumers. This explains the paradox of both the urban and the rural consumers feeling that the terms of trade are shifting against them. The cause is the rapid increase in the use of producer services in production. If things are produced locally and consumed locally it will have an impact on the use of services and their growth.

7. Conclusion

The structure of the Indian economy is complex due to its heterogeneity, unlike that of any other economy in the world. There are many dichotomies, such as organised and unorganised sectors, black and white economies, rural and urban areas and advanced and backward states. Hence, uncritical copying of the models of development followed by others, such as blindly pursuing Western modernity, has led to severe problems. Capitalism is rapidly

displacing the earlier modes of production in every sector but it has taken on the form of a highly exploitative primitive capitalism. Labour is a marginalised section of the economy with a tiny organised sector while the bulk of it is unorganised, constituting a reserve army of labour which keeps wages down. Labour is a divided lot and the working class consciousness is weak, so that it is unable to resist the exploitation of capital. Dalits, women and children constitute the marginalised sections within this group that are severely exploited.

All the sectors of the economy have modernised considerably since independence but a traditional / backward or small and cottage sector has survived in every major sector. This is a residual sector where a bulk of the employment exists since it takes little capital to generate a job. However, wages here tend to be low keeping the standard of living down. In agriculture, modernisation has meant improved food security but a rapid shift from more holistic traditional techniques to new less environment-friendly techniques. There was wholesale copying of the new agricultural practices with little time or thought given for organic evolution of the old and the new or learning from the mistakes of others. Something similar has happened in the other sectors as well with techniques copied or borrowed rather than evolved over time and after a proper assessment to avoid the mistakes made by the advanced nations.

The reason for the faster growth of the Indian economy from the early 1980s is the decline in the share of the slower growing sector (agriculture) and the rise in the share of the faster growing component (tertiary sector) — an obvious tautology. There are three implications of this structural change in the economy. First, the increase in the decadal rate of growth of the economy post-1980 has little to do with the process of opening up of the economy. Even if opening up of the economy had not taken place, the rate of growth would have gone up due to the sectoral changes. Second, the impact on the economy of even a severe drought has become marginal unlike earlier and its rate of growth remains positive. Third, a majority of Indians dependent on agriculture are increasingly marginalised since their economic activity matters less and less.

After 1991, marketisation and indiscriminate opening up of the economy impacted all the sectors and the marginalisation of the marginals gained pace leading to rapid increase in disparities across sectors and within sectors. For instance, food security has been adversely affected as a result of the shift in cropping patterns and consumption habits. Food has been used as an instrument of manipulation by foreign governments but the ruling elite refuses to see it and because of its disrupted consciousness has not laid enough emphasis on food security and allowed it to be dented post-1991.

The economy has gone from being dominated by the agriculture sector at the time of independence to being led by the services sector. However, change in the sectoral employment pattern has been slow. Technology has been upgraded in all the sectors of the economy but due to its capital intensity it has led to the emergence of a modern sector with little employment generation leaving a vast bulk of the population in the unorganised, backward, small and tiny sectors at low wages. This is a residual sector, which has been like a safety valve for the economy — workers get low productivity work, do not revolt for lack of work and they also get cheap goods produced by this sector.

The Indian economy has jumped the stage of development in which the secondary sector could be the dominant one, as has been the case in the advanced economies. It is pointed out that this is the result of the desire to copy Western modernity and borrowing of modern technology, which led to India jumping several vintages of technology. Since the current technology requires the more intensive use of services, the tertiary sector has grown faster. The weight of colonisation meant poor infrastructure so that after independence India had to catch up and this led to the rapid expansion of the tertiary sector. It was shown that India is not an exception but is following the path of other low and middle income countries all of whom have been trying to copy the path of Western development. However, this has meant the marginalisation of the majority of the population in the country who are still dependent on agriculture and the small and tiny sectors.

Chapter VII

Global Aspects of Post-Independence Developments

1. Introduction

1.1 The International Political Developments

Globalisation has had a strong impact on India is a truism. As suggested in Chapter II, Section 2, the colonial rule was an aspect of India's one-way globalisation going on since 1750. It was argued that the colonial rule disrupted Indian society whose affects are still visible. The nature of globalisation affects: (a) the nation's trade, and (b) its external relations which impact trade. Both of these then impact the nation's internal policies. The discussion of India's exports, imports, current account and BOP is, therefore, only one aspect of a more holistic presentation of external relationship in this chapter. For a traditional analysis of these issues *see* Sen (2007) and Nayyar (2008).

A nation's international perspective is based on its understanding of itself. Consider USA at the time of its gaining independence in 1776. That was incidentally the time, the Indian sub-continent was moving towards foreign rule. People from Europe had migrated to the new land. They were of the same stock as the British and not quite a colony but they did not wish to be ruled by a distant power and preferred self-rule. This perspective drove them to become a super power over time. Another example is of Europe, where there were big and small powers in the 18^{th} and 19^{th} century but the big ones did not colonise the smaller ones (far smaller than India and much closer). Because they realised that the cost for them would be high given the perspective of the small European nations about independence.

Prior to 1947, India's international perspective was determined by the British colonial power and the international relations were based on the British national interest. Decisions regarding whether to trade with China or what to trade with it or whether to participate in the World Wars were based on the interest of the colonial power. Post-1947, India's international perspective changed somewhat due to the impulses of the freedom movement but these weakened quickly (*see* Chapter III). For instance, it supported the end to colonial rule all over the world and sided with national struggles. It

wanted relative independence from the West, the evil colonial power. The West grudgingly accepted this since it did not wish to see India tilt towards the communist bloc. However, as argued earlier, the national elite's view was moderated by its aspiration to be modern, like the West.

In the 1950s, the nation was caught in the prevailing cold war perspectives (*see* Chapter III). Instead of adopting a clearly independent line, it created an amalgam of the prevailing thinking on both sides and adopted the mixed economy model and non-alignment. The Indian foreign policy bureaucracy in 1947 could not shake off its British imperialist mould of thinking and could not evolve an independent line of thinking. They provided the inputs to the politicians who were not only inexperienced but were too caught up in the internal problems faced by the young nation.

Economics and politics are as intertwined at the international level as at the national. For instance, nations are interested in capturing other's markets and gaining control over other's resources. In the late 1990s, the conservatives in the USA (called neo-cons) produced a plan which gave a blue print of how the USA could dominate over the world in the 21st century (PNAC, 1997). Most of the signatories to that statement became important members of the Bush administration. Huntington (1996) propounded the thesis, "Clash of Civilisations" spelling out how Western strategic interests could be served through alliances with other nations. The other big powers, such as the Germans, the Chinese, the Russians and the Japanese also protect their strategic interests. In brief, in international relations, every nation is expected to protect its own interest and no one grudges that. However, a national interest can only be defined in the long run based on a clear perception about itself (*see* Chapter IV, Section 2). What may seem to be correct in the short run may turn out to be not so as the Soviet Bloc found out.

India needs to define its long-term interests based on its own perceptions of its national interests. Even if it does not have a strategic external interest in territories or resources (like, the colonial powers and today's super powers), it would need to have one to thwart others from adversely affecting its interests. This requires long-term thinking and an ability to define the national interest clearly. Of course, it has to define this keeping in mind its strengths and stage of development. The external orientation of the Indian ruling elite (since independence) has come in the way of doing so since it has tried to blindly follow the Western path and, therefore, has tied up with the strategic interest of the Western powers — Soviets earlier and the USA now.

It is not that other big nations having a clear national strategic interest will not try to fit India into their own framework but the question is if India has its own well defined interest, the country would know how to deal with them rather than be constantly buffeted by them. The lack of clarity at the

top translates into the weakness of the perspective of the citizens. India's elite classes have often offered their services to foreign powers to push their interests in India. There have been accusations of prime ministers being agents of one power or the other and doing their bidding.

With levels of corruption being as high as they have been, senior functionaries of the ruling elite have been suspected and accused of selling national interest. Senior retired members of the armed forces have been known to work for the interest of foreign companies to sell arms, and it is not much of a distance to work for the political interest of other nations. The same goes for the senior bureaucrats who have been vying to work for international agencies or MNCs to make big personal gains for themselves or their children. Many of them, after using their position to come close to these agencies, have sought early retirement to work for them. Senior academics have also allowed themselves to be co-opted by the international agencies of various descriptions. Not only is there money but also power since it enables the building of networks when one helps others. For instance, former employees of the World Bank who return to India are much sought after by those who want to go to these agencies for assignments. Networking and building contacts is a past-time for the elite.

There is a revolving door (*see* Bhushan, 2010). The same set of people move in and out of the major institutions in India and the international agencies (Bhaduri and Nayyar, 1996). They are able to get to these agencies for the compliant views they espouse. When they return, they push these views in various ways. That is the only way to repeatedly return to these agencies and retain their contact over time. In senior positions, the national interest can be tailored to suit the interest of the international agencies, dominated by the Western powers.

The armed forces are increasing their exchanges with the forces of other big powers, which open India's men to temptations and foreign influences. The massive corruption associated with arms trade in India suggests that this is not just a case of idle speculation. If the nation was internally strong this would not have mattered as it may be the case for say, the Americans. In fact, in their case, contacts are used for obtaining national advantage. It is not that some Americans have not acted against the national interest but these are the exceptions while in India these seem to have become the norm. Agents of India's intelligence agencies have been co-opted by agencies of other nations. One-way globalisation has meant that for the Indian ruling elite the mental boundaries dissolved a long time before the physical borders of the nation were opened up in 1991.

Independent India's international perspective has been weak due to its ruling elite's inability to define its and the nation's interests. The national spirit created during the freedom movement dissipated quickly and so did

the move for swadeshi and self-reliance. Unlike, Soviet Union and China that attempted an independent path, India did not make any such effort. As a result, as soon as these two economies collapsed / changed direction, India could not withstand the pressures from the Western nations. It accepted the changes in policy suggested by the IMF, World Bank and the WTO under prodding from the advanced nations. It became fashionable in Indian policy making circles to argue that if the Communist bloc could not sustain an independent path how could India? It was seen as a failure of socialist ideas and in a throw-back to "Endism", a complete acceptance of capitalism as the only form of ideology available for development.

In 1991, all attempts / pretences of charting out an independent path based on India's own needs were given up. The media, controlled largely by the corporate sector and the western trained intellectual class, was not unhappy at this development. They had faced a contradiction in their thinking, which got resolved. While for strategic reasons, India was allied with the Soviets for much of the period after the early 1960s, the elite ruling class was actually enamoured of the West and not only looked up to it but preferred it for all other reasons — education, technology and goods, among others, and looked to it for guidance. Thus, due to the Cold War and strategic reasons, the Soviets were an ally but they were not the ideal to be followed (which the capitalist West was).

The business class did not like the equity oriented policies followed after 1947 and called them socialistic policies. Even though these policies helped its profits, it distrusted them because it saw them as a threat to their long-term prospects. A successful public sector carried a threat of potential nationalisation. An unsuccessful public sector became the best advertisement against nationalisation and continuation of the private sector (Kumar, 1999). This was a reflection of the ruling elite's short-sightedness and inability to define a clear national interest and became the cause of their dependent status — they undermined an instrument of their faster growth because they wanted immediate and short-run gains. The West also made deep inroads into the Indian elite classes (including the political) from the beginning because of the links during the colonial period itself and the strong lobbies they created in India which backed their cause. These sections of the elites have nudged India towards the Western bloc. There were allegations that one of the prime ministers was a CIA agent and that another one earlier was closely allied to the Russian interests and was routinely paid. Such high-level matters are hard to prove or disprove because they are mired in intrigue and secrecy.

India's defeat at the hands of China in 1962 resulted in its loss of international prestige and it temporarily swung politically and economically towards the West. The war with Pakistan in 1965 led to a reversal of this trend but the drought of 1965-67 forced India to tilt to the West. In 1971, during

the Bangladesh war India was opposed by the US and it sought a strategic alliance with the Soviet Union. This added to confusion in Indian policy making because politically it had to shift opposite to its economic policy stance, which was increasingly swinging towards the West, especially since the Emergency. This confusion added to economic decline in that period.

India's relations with the international institutions, which have been guiding the free market economy in the world have been one-sided. India has mostly been perceived to be weak, and at times a basket case, and in need of aid. These agencies have demanded concessions from India and they have been granted from time to time, especially since the mid–1960s. Explicitly, India accepted conditionalities in the mid-1960s, the early 1980s and 1991 onwards. The Indian economy aligned increasingly with the Western bloc and its links with the Soviet Union continued to weaken and they collapsed in 1990 with the dissolution of the Soviet bloc.

India's neighbours have viewed India with distrust, as a big brother. Neighbours like Nepal, heavily dependent on trade with India and Bangladesh for whose freedom India worked hard, also mistrust Indian intentions so that there is constant tension. Nepalese Maoists have links with the Indian Maoist movement and have helped it. Bangladesh reportedly harbours the various separatist and terrorist groups of the North East. Mutual suspicions have also led to fuelling of movements in each other's territory so as to gain an upper hand over each other. Movements have been fostered in Sind, Baluchistan, Sri Lanka, Bangladesh, Kashmir, Punjab and the North East. This has resulted in a lot of social tension, and bloodshed in the region and growing expenditure on police and administration, adversely impacting development in the area. No wonder, the South Asian sub-continent has been one of the most underdeveloped regions in the world.

Due to India's poor relations with its neighbours, India's defence expenditure (Table 3.1) has been much higher than it need be. Trade has suffered since rather than importing from each other goods are bought from others over longer distances. In fact, quite a bit of trade with Pakistan was taking place through Dubai and the Middle East raising costs while direct trade would have been at much lower cost to each other. The economies of the South Asian countries have been complementary to each other and could have been mutually beneficial to each other. However, this has not happened in spite of the creation of the South Asian Zone and talk of South Asian Free Trade Area (SAFTA). Mistrust has not allowed these initiatives to move forward.

India has tried to join the ASEAN but these attempts have been rebuffed. We are not able to create our own corresponding trade grouping in Asia. Much of this is due to lack of clear thinking about South Asia amongst the nations of the region. The Indian ruling elite has to bear a lion's share of the blame for the state of affairs as the largest regional power and the one that

can single-handedly change the environment, which the others cannot. India is far larger than all of the others put together and can act unilaterally to create confidence while the others are not in a position to do so. This lack of a perspective is a reflection of the continued colonial disruption suffered by the Indian ruling elite and which allowed the imperial mould of thinking in its bureaucracy to persist.

1.2 Export Pessimism, Import Substitution and Economic Growth

Luxemburg (1968) suggested that exports constitute a stimulus to the growth of a capitalist economy. However, Kalecki (1971) using the national income identity argued that it is the export surplus that constitutes the stimulus by providing the capitalists an additional market over and above what the national economy provides. Thus, it is the current account surplus that helps the national economy grow by boosting demand for goods and services. This is the underlying basis of a nation trying to capture the market of another nation and was also the underlying basis of imperialism — capturing markets.

Capturing of markets can also be extended to the surplus in trade that the capitalist sector of an economy can have with the remaining non-capitalist part. The capitalist sector can expand at the expense of the non-capitalist or pre-capitalist sectors. For instance, in India the capitalist sector is displacing the production in the tribal, cottage sector or unpaid work in homes. This can give the impression of growth (see Kumar, 2006d) without the national economy growing.

Why did India not use exports to stimulate its economy? At the global level, one country's export surplus is another's deficit, so the world as a whole cannot have an export surplus (unless it trades with say, Mars). However, it can be argued that India could have been selfish and used exports to expand its market even if it was at the expense of some other nation because that is what other nations do — national interest comes first.

It is often said that India was a closed economy and so did not benefit from exports but this is not correct. What was true was that from the 1950s to 1991, the focus of the economy was the home market and not exports. That is why the former was protected and growth came from that source. This has been characterised as "export pessimism". It was also based on the historical experience of being exploited through trade. Further, it was accepted that India being technologically backward could mostly export primary goods and not the higher value-added manufactured ones and would get exploited. To develop the home market "import substitution" was used. As Table 7.1 shows, in major items of production the indigenous content

went up stimulating the home market and thereby growth. It was believed that this would lead to production of higher value-added goods behind protectionist barriers (*see* Chapter VI, Section 5 for "infant industry" argument). High tariffs and quantitative barriers were used to reduce and cut off imports. Thus, the need to earn more and more foreign exchange through exports was minimised. This resulted in the share of exports and imports in world trade to fall from around 2 per cent in 1950 to around 0.5 per cent in 1980. These ratios have slowly risen now to about 1.5 per cent.

Table 7.1

Progress of Import Substitution in the Select Industries in 1950s and the 1960s

Commodity	*Unit*	*1950-51*		*1955-56*		*1965-66*	
		Total Estimated Supplies (a)	*Imports Percentage of (a) (b)*	*Total Estimated Supplies (a)*	*Imports Percentage of (a) (b)*	*Total Estimated Supplies (a)*	*Imports Percentage of (a) (b)*
Bicycle	Thousand Nos.	264	62.5	661	22.4	1582	-
Sugar Mill Machinery	Rupees Million	10.0	100.0	41.9	95.2	77.6	0.8
Textile Machinery	Rupees Million	N.A.	N.A.	123.3	67.6	500.2	56.8
Soda Ash	Thousand Tonnes	75	40.0	154	46.7	367	9.7
Bleaching Powder	Thousand Tonnes	9.4	61.7	8.2	61.0	9.2	20.6
Iron and Steel	Thousand Tonnes	1391	25.2	2162	39.9	5416	16.7
Caustic Soda	Thousand Tonnes	34	64.7	96	62.5	292	25.4
Aluminium	Thousand Tonnes	14.7	72.8	23.5	68.5	82.4	24.6
Machine Tools	Rupees Million	29.5	89.9	52.8	84.8	609.3	61.8
Newsprint	Thousand Tonnes	76	100.0	84.0	95.2	115	73.9
Sewing Machines	Thousand Nos.	56	41.1	125	11.2	433	0.7
Paper and Paper Boards, etc.	Thousand Tonnes	151	23.2	260	26.9	584	4.5

[Source: GOI (1970). pp. 132-33.]

Essential imports were allowed and this was especially necessary for upgrading technology. However, it is often argued that imports force indigenous producers to upgrade technology as they face competition. It also prevents them from charging monopoly prices as they have to be competitive with international prices. It is argued that consumers benefit through lower prices. However, what is not taken into account is the impact of openness on investments, R&D and incomes, and through that on consumers. For instance, while low and intermediate technology may be available for a fee, high technology is not usually made available on the plea of "dual use" (military applications). Hence, indigenous producers are not able to upgrade to the latest technology, get used to import of technology and do not spend adequately on R&D.

When a really backward industry, which has little chance of catching up, faces foreign competition from those with technology that is several generations ahead it tends to simply give up and start trading or assembling. Its capacity to absorb and develop technology becomes minimal. Thus, while apparently the economy seems to be upgrading technology through making modern technology goods available it may be losing the capacity to absorb and develop technology unless the government makes an independent effort in that direction. That has little to do with openness. In effect, the economy may become permanently backward and the investment rate may decline. Thus, growth and income generation are adversely affected. Hence, in spite of the cheapening of goods due to imports, consumption may fall. Even if consumption rises, if this is at the expense of the autonomous development of the country, it is not desirable because it would be temporary.

For instance, China may be producing most goods cheaper than India and if the Indian economy is opened to these imports, prices could drop and consumers would benefit. However, this would set back production, many would lose their jobs and have no incomes so that in spite of cheaper goods, consumption would drop. Take another example. Wheat producers may be able to get milk cheaper due to milk imports but if their incomes fall more (due to wheat imports) than does the price of milk, then they would consume less milk in spite of its lower prices.

Where the technology effect is strong, the case may be different, like for mobile phones. Due to scale economies, both the price of cell phones and the charges for calls have dropped and led to a sharp rise in the use of these phones. This can equally happen in a relatively closed economy so the recent explosive expansion of cell phone use has little to do with the openness of the economy and more with the nature of the technology. It also has to do with the current priorities of society and the government — how resources are to be spent.

The real question is what should an economy produce or what should it import and what is the resource cost for the economy, either of that production or of import? In a poor country, with limited amount of capital and foreign exchange, one can neither produce everything one may wish for nor freely import whatever is needed. There is a need for prioritisation: (a) of what is essential for immediate consumption, and (b) for investment so as to rapidly develop the economy. Since imports require exports to earn the foreign exchange needed to finance them, they also need to be prioritised on the same basis.

If the economy is simply opened up and exports and imports allowed as per market demand, it would not be as per the priorities of the nation but very likely as per the wishes of the well-off sections. While this may be desirable for these sections who will be able to consume what they wish to, it may not be what is needed by the marginalised sections, which lack the purchasing power to influence the markets. Also, this may lead to prioritising the short-run with investments directed to fulfil luxury consumption and not essential consumption of the marginalised sections, thus leading to a growing divide between the well-off and the marginalised sections.

This is visible in the post-1991 phase of the economy. While in the pre-NEP phase, even though not the optimum, there was better prioritisation of the needs of the marginalised sections. Thus, opening up of the economy changes its priorities and makes them market determined while the marginalised sections who lack purchasing power and, therefore, the capacity to affect the markets, get more further marginalised. Thus, even if the rate of growth of the economy goes up, its content may not be desirable for the vast majority of the country and, therefore, undemocratic. A wasteful philosophy like consumerism (*see* Chapter V, Section 4) becomes essential to paper over these features of the growth process. This philosophy also engulfs the marginalised sections who are enticed by the possibility of being better-off in some uncertain future.

It is often stated that the Indian economy opened up in 1991. This is not really true since it is only the degree of openness of the economy that changed. It is not that an economy is completely closed or open. Myanmar or North Korea in spite of being isolated also have exports and imports. The degree of openness of an economy may be measured by the ratio of exports and imports to GDP. As argued in Kumar (1991b), these ratios for the Indian economy in 1990-91 were similar to those in the USA, Japan or China but vastly different from those in, say, Sri Lanka or Germany. Usually, the bigger economies have a lower degree of openness since they are able to produce a large amount of what they need while smaller economies, like Sri Lanka, cannot do so and have to import many things from outside or there are economies, like Germany that have decided to be big exporters.

It is not just the degree of openness that matters for a nation's well-being. Till 1947, India was mostly open to foreign (especially British) goods entering India. This did not help the Indian economy to either grow or for its technology to improve. On both these fronts, till 1947 India did poorly and its industry remained backward. It is only when the national government took control and formulated policies beneficial to the Indian economy that development really started (*see* Table 1.1). Thus, an open economy did not help India, instead it led to the deterioration of the conditions in the country. In brief, it is not in the abstract that a relatively open economy will do better and a relatively closed economy will do worse, this depends on the national policies.

For a developing country dependence on exports means competing in low and intermediate technology products with other developing countries that are also producing the same goods (say, textiles and cheap manufactures). Thus, prices have to be highly competitive, so that to make profits, wages have to be kept down, which results in growing inequality, pressure for changes in labour laws and curbing of labour rights, especially in export-related sectors. To save on costs, the environment may be allowed to be degraded — laws may be bent or eliminated. All this is visible in China today — the export powerhouse of the world. The leadership is now concerned at the growing disparities of all description — rural-urban, East-West and corporate-non corporate. It is the authoritarian political structure that enables them to keep a lid on the growing social discontent. India, with its formal democracy, is facing a growing problem of rising social tensions.

Export push requires technology and global marketing, which involves going to the MNCs for tie-ups and accepting their conditions, or alternatively, government backing for R&D and subsidies to push global marketing. The Chinese and the NICs have implemented both these policies in a substantial manner since the 1970s. They have invited MNCs at concessional terms and have followed the Japanese model of creating a close association between the government and business to push exports. India, with its democratic structures, could not do so but after 1991 it has also attempted such an association to the detriment of the marginalised sections.

Tying up with MNCs for local production has meant becoming a part of their global production chain and allowing them to use cheap local labour (termed as sweat labour by critics in advanced countries). Exports rise but so do imports so that net exports are not as large as the gross figures signify. Wages paid by MNCs may be higher than what local companies were paying but given the capital intensity of this production, not much employment is generated and large countries remain dependent on their indigenous activity to provide employment to the vast majority. In China, Special Economic Zones (SEZs) were created to boost exports. These absorbed huge amount of

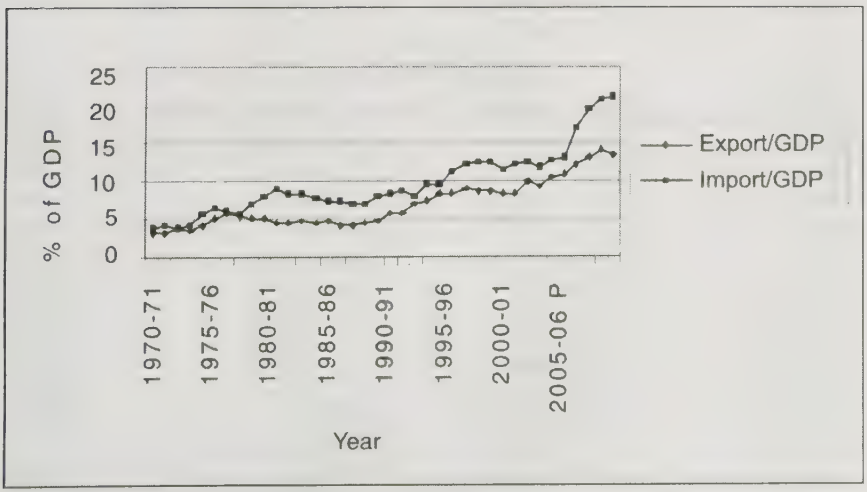
resources for the creation of infrastructure and they were offered big concessions in taxes and so on. Thus, the resource cost of such exports for the national economy is large and invariably it comes at the expense of the marginalised sections of society.

The size of the internal market can be an aid to exports. In those goods that are mass produced due to the large internal demand, there are scale economies and this makes them cheaper and easier to export. Exports by the developing world may also be helped by the advanced nations vacating certain areas — polluting products or low value-added products — for the developing countries. This gives the advanced nations cheap products for their economies to benefit from. Cartelisation and rigging of higher prices, as in the case of OPEC, has not been possible as the developing countries are not able to get together. Each is trying to gain advantage over the other. Even in WTO negotiations this has not been possible as the advanced nations are able to divide up the developing nations (Kumar, 2000).

The export stimulus is also uncertain since it depends on the demand for a country's goods. As the international situation changes, demand may drop or new competitors may emerge, there may be a sudden change and the stimulus may weaken. In cases, where exports depend on imports, like, in the case of gems and jewellery, India depends on the imports of gold and gems. Thus, the net export is small compared to the gross export. In India's case export growth has lagged imports for most of the period so that the trade deficit has continued in spite of the sharp increase in exports over the past 20 years (*see* Table 3.6 and Graph 7.1).

Graph 7.1

Export and import as % of GDP



(Source: RBI, 2009.)

In effect, in spite of the massive opening up of the economy since 1991, India has not benefited from any major export stimulus as yet (unlike China). It is in the case of invisibles (Table 7.2) that the country has done better (like, in software as shown in Table 7.3) predominantly because of its cheap labour. While the software industry has done well and is exporting a substantial part of its services, a large part of it is based on the supply of cheap labour on site. It has yet to graduate to producing and exporting high value-added IT products. In fact, some term India's software exports as supply of "cyber coolies" in a throwback to the days that "coolies" or indentured labour from India used to be sent to work on plantations.

Table 7.2

Invisibles in Current Account

(in ₹ Crore)

Time Line	*Credit*	*Debit*	*Net*
1948-49	127.7	96.0	31.7
1949-50	136.2	93.4	42.8
1950-51	139.5	97.1	42.4
1951-52	178.8	107.6	71.2
1952-53	193.4	102.1	91.3
1953-54	190.7	91.2	99.5
1954-55	204.5	105.4	99.1
1955-56	255.9	116.4	139.5
1956-57	265.5	111.4	154.1
1957-58	249.0	115.8	133.2
1958-59	253.1	127.1	126.0
1959-60	254.2	140.8	113.4
1960-61	259.9	177.1	82.8
1961-62	234.3	203.0	31.3
1962-63	284.1	222.2	61.9
1963-64	325.9	231.9	94.0
1964-65	406.6	254.7	151.9
1965-66	344.8	272.2	72.6
1966-67	459.5	398.8	60.7
1967-68	435.8	441.0	-5.2
1968-69	482.0	467.4	14.6
1969-70	439.0	502.4	-63.4
1970-71	496.1	533.0	-36.9
1971-72	545.6	569.7	-24.1
1972-73	514.3	658.2	-143.9
1973-74	2,281.4	635.8	1,645.6
1974-75	985.1	653.9	331.2
1975-76	1,814.8	810.1	1,004.7
1976-77	2,204.2	1,000.0	1,204.2
1977-78	2,767.1	1,045.6	1,721.5
1978-79	3,184.7	1,210.5	1,974.2
1979-80	4,386.2	1,499.6	2,886.6

(Contd. . .)

Table 7.2 *(. . .contd)*

Time Line	*Credit*	*Debit*	*Net*
1980-81	5,669.1	1,671.8	3,997.3
1981-82	5,663.5	2,008.3	3,655.2
1982-83	6,061.7	2,622.4	3,439.3
1983-84	6,892.7	3,284.3	3,608.4
1984-85	8,242.9	4,394.4	3,848.5
1985-86	7,875.2	4,245.0	3,630.2
1986-87	8,274.4	4,750.5	3,523.9
1987-88	9,278.5	6,275.0	3,003.5
1988-89	10,926.3	7,780.7	3,145.6
1989-90	12,483.9	9,900.7	2,583.2
1990-91	13,396.0	13,829.0	-433.0
1991-92	23,449.0	19,191.3	4,257.7
1992-93	27,037.8	22,563.6	4,474.2
1993-94	35,500.6	26,413.7	9,086.9
1994-95	48,838.4	31,001.0	17,837.4
1995-96	59,443.1	41,027.2	18,415.9
1996-97	76,093.0	39,814.0	36,279.0
1997-98	86,245.0	49,323.0	36,922.0
1998-99	1,08,459.0	69,770.0	38,689.0
1999-00	1,31,449.0	74,421.0	57,028.0
2000-01	1,47,778.0	1,02,639.0	45,139.0
2001-02	1,75,108.0	1,03,727.0	71,381.0
2002-03	2,02,757.0	1,20,400.0	82,357.0
2003-04	2,45,413.0	1,18,044.0	1,27,369.0
2004-05	3,11,550.0	1,71,959.0	1,39,591.0
2005-06	3,97,660.0	2,11,733.0	1,85,927.0
2006-07	5,17,146.0	2,81,567.0	2,35,579.0
2007-08	5,96,954,0	2,97,336.0	2,99,618.0

Source: RBI, website: www.dbie.rbi.org.in.

Table 7.3

Software Services

(in ₹ Crore)

Time Line	*Credit*	*Debit*	*Net*
1997-98	6,570	829	5,741
1998-99	11,064	1,461	9,603
1999-00	17,412	1,600	15,812
2000-01	29,013	2,705	26,308
2001-02	36,038	3,202	32,836
2002-03	46,424	3,565	42,859
2003-04	58,781	2,175	56,606
2004-05	79,404	3,579	75,825
2005-06	1,04,632	3,829	1,00,803
2006-07	1,41,356	10,212	1,31,144
2007-08	1,62,020	12,299	1,49,721

(Source: RBI, website: www.dbie.rbi.org.in.)

1.3 Opening up and Foreign Investment

Since the export stimulus is uncertain and involves concessions to foreign capital for the sale of the goods and services, import substitution seems to be a more certain strategy. Further, it also boosts investments as compared to the situation of uncertainty when imports are liberally allowed. For a developing economy like India, it seems to be a better strategy.

Table 7.4 shows that foreign investment has increased by leaps and bounds since 1991. Initially, it did not pick up but from 1993-94, FII rose sharply and then FDI picked up from 1994-95. Total foreign investment showed quantum jumps in 1993-94, 2003-04, 2005-06 and 2007-08. Except for the last three years in Table 7.4, the total foreign investment has been a few per cent of the total investment in the economy. In other words, most of the growth in India has been based on the internal savings and investment effort.

The flow of FII funds is considered unstable and characterised as "hot money" flows. In the global economic crisis starting 2007, it has proved to be fickle and led to a rapid decline of the stock markets leading to uncertainties that affected the investment climate. This confirmed the fears about FII investments in the Indian stock markets as constituting hot money flows. It was argued that in times of crisis the FIIs would look at their global interest and not that of India. Those who argued to the contrary felt that the FIIs would not withdraw suddenly because they would lose as the stock markets declined. These analysts have been proved wrong and the FIIs withdrew funds in 2008 from the Indian markets even though they suffered losses. Their paramount interest was that of the parent companies or the external entities whose money they brought in.

There has been another worry regarding the flow of foreign funds, namely these could be dirty money and the black funds taken out of the country earlier. Indeed, the Participatory Note (PN) route for bringing funds to India via the FIIs is suspected to be used by such illegal money. In the PN route, the identity of the investor is kept a secret precisely so that anyone's funds can come in. Is there a problem with illegal funds coming to the country or is it beneficial under all circumstances since it is investment in the economy? The problem is that those bringing in illegal funds are laundering them and tend to strengthen their illegal operations and they could take out more funds at a later date (Kumar, 1999). Once this route to bring in and take out money gets established, it facilitates illegality and making black incomes, thereby enabling such activities to increase.

Table 7.4

Foreign Investment Inflows

Year	*(A) Direct Investment ₹ Crore*	*US $ million*	*(B) Portfolio Investment ₹ Crore*	*US $ million*	*Total (A+B) ₹ crore*	*US $ million*
1	*2*	*3*	*4*	*5*	*6*	*7*
1990-91	174	97	11	6	185	103
1991-92	316	129	10	4	326	133
1992-93	965	315	748	244	1,713	559
1993-94	1,838	586	11,188	3,567	13,026	4,153
1994-95	4,126	1,314	12,007	3,824	16,133	5,138
1995-96*	7,172	2,144	9,192	2,748	16,364	4,892
1996-97*	10,015	2,821	11,758	3,312	21,773	6,133
1997-98*	13,220	3,557	6,794	1,828	20,014	5,385
1998-99*	10,358	2,462	-257	-61	10,101	2,401
1999-00*	9,338	2,155	13,112	3,026	22,450	5,181
2000-01*	18,406	4,029	12,609	2,760	31,015	6,789
2001-02*	29,235	6,130	9,639	2,021	38,874	8,151
2002-03*	24,367	5,035	4,738	979	29,105	6,014
2003-04*	19,860	4,322	52,279	11,377	72,139	15,699
2004-05*	27,188	6,051	41,854	9,315	69,042	15,366
2005-06*	39,674	8,961	55,307	12,492	94,981	21,453
2006-07*P	99,985	22,079	31,713	7,003	1,31,698	29,082
2007-08*P	1,30,522	32,435	1,18,288	29,395	2,48,810	61,830

(Source: RBI, 2009.)

Notes:

P : Provisional.

* : Includes acquisition of shares of Indian companies by non-residents under Section 6 of FEMA, 1999. Data on such acquisitions are included as of FEMA, 1999. Data on such acquisitions are included as part of FDI since January 1996.

1. Data on FDI have been revised since 2000-01 with expanded coverage to approach international best practices. Data from 2000-01 onwards are not comparable with FDI data for earlier years.

2 Negative (-) sign indicates outflow.

3. Direct Investment data for 2006-07 include swap of shares of 3.1 billion.

The security apparatus has been worried that not just illegal money from Indians but also funds from terrorist groups have been flowing in. The line between the illegal and anti-national activities is thin with one leading to the other. While the former may not be interested in destabilising the nation, this cannot be said about the latter who could use the funds to rock the markets and / or to further their activities in the country, thereby weakening the

Indian state. Even if illegal or anti-national activities were not involved, hot money flows can, through speculation in the stock markets, destabilise investments in the real economy. Thus, any positive influence of FIIs may get undone by the negative impact of uncertainty.

In brief, there are too many negatives associated with the indiscriminate opening up of financial flows. It is argued that if opening up can work for other countries like China and the South East Asian Economies, then why not for India? As discussed in Chapter V, Section 1.3.1, while one can learn from another country it does not follow that if some policies succeed for one these would also work for another — the social and the international contexts may be completely different.

For instance, if a nation (like South Korea) has a strategic alliance with a major power which gives it access to technology and markets, then the situation can hardly be replicated by another nation (like India), which was denied such access. Take another example. A bulk of the foreign investments into China has come from the non-resident Chinese residing in Hong Kong, Macao and Singapore, among others. But in India's case, the non-resident Indians (NRIs) have not only been less forthcoming in investing in their country of origin but have at times destabilised the situation by withdrawing their funds, like in 1989-91. Further, the historical experience and the political-social situations are completely different across nations, especially the large ones. For instance, the political system in China allows it to keep political tensions under wraps but that is hardly possible in India.

2. Exports and Imports: Their Changing Structure

India's exports and imports have been a small fraction of the GDP since independence (*see* Table 3.6). While both were around 7 per cent in 1950-51, they dwindled by the mid-1960s to 3.4 and 5.3 per cent respectively. These numbers started rising at the end of the 1970s and rose sharply after 2000-01.

Table 7.5 shows that India has had a deficit in the trade account for almost the entire period since independence with only two years in the 1970s showing surplus. On the current account, the situation has been better in most years because of the surplus in the invisibles. This deficit in the current account has been covered by capital account surpluses by (a) Aid, (b) Remittances by Indians working abroad, (c) NRI deposits (Tables 7.6 and 7.7) and (d) investments (FDI and FII) flowing into the country (Table 7.4).

Table 7.5

Current Account Balance

(in ₹ Crore)

Year	*Credit*	*Debit*	*Net*	*Trade Balance*	*Invisibles (Net)*	*Current Account Balance*
1948-49	610.2	862.3	-252.1		31.7	-252.1
1949-50	650.2	697.3	-47.1	-132	42.8	-47.1
1950-51	786.3	747.4	38.9	-2	42.4	38.9
1951-52	908.9	1,071.5	-162.6	-174	71.2	-162.6
1952-53	795.3	735.1	60.2	-124	91.3	60.2
1953-54	730.4	683.0	47.4	-79	99.5	47.4
1954-55	801.1	795.1	6.0	-107	99.1	6.0
1955-56	896.2	889.5	6.7	-165	139.5	6.7
1956-57	900.7	1213.5	-312.8	-236	154.1	-312.8
1957-58	917.6	1,349.0	-431.4	-474	133.2	-431.4
1958-59	829.4	1,156.4	-327.0	-325	126.0	-327.0
1959-60	887.5	1,073.1	-185.6	-321	113.4	-185.6
1960-61	890.4	1,282.8	-392.4	-480	82.8	-392.4
1961-62	902.6	1,209.0	-306.4	-430	31.3	-306.4
1962-63	965.0	1,319.0	-354	-446	61.9	-354.0
1963-64	1,127.5	1,476.9	-349.4	-430	94.0	-349.4
1964-65	1,207.5	1,675.5	-468	-533	151.9	-468.0
1965-66	1,129.3	1,640.1	-510.8	-599	72.6	-510.8
1966-67	1,546.0	2,389.9	-843.9	-921	60.7	-843.9
1967-68	1,695.5	2,503.0	-807.5	-809	-5.2	-807.5
1968-69	1,849.4	2,259.8	-410.4	-551	14.6	-410.4
1969-70	1,844.4	2,078.4	-234.0	-169	-63.4	-234.0
1970-71	1,913.7	2,359.1	-445.4	-99	-36.9	-445.4
1971-72	2,126.2	2,624.9	-498.7	-216	-24.1	-498.7
1972-73	2,508.0	2,819.4	-311.4	104	-143.9	-311.4
1973-74	4,637.9	3,502.7	1,135.2	-432	1,645.6	1,135.2
1974-75	4,180.0	5,135.7	-955.7	-1,190	331.2	-955.7
1975-76	5,994.6	6,172.5	-177.9	-1,229	1,004.7	-177.9
1976-77	7,344.0	6,449.7	894.3	69	1,204.2	894.3
1977-78	8,207.5	7,083.4	1,124.1	-612	1,721.5	1,124.1
1978-79	8,778.7	9,016.6	-237.9	-1,085	1,974.2	-237.9

(Contd. . .)

Table 7.5 *(. . .contd)*

Year	*Credit*	*Debit*	*Net*	*Trade Balance*	*Invisibles (Net)*	*Current Account Balance*
1979-80	10,699.2	11,252.5	-553.3	-2,724	2,886.6	-553.3
1980-81	12,334.8	14,548.3	-2,213.5	-5,838	3,997.3	-2,213.5
1981-82	13,429.0	16,267.9	-2,838.9	-5,802	3,655.2	-2,838.9
1982-83	15,198.8	18,478.9	-3,280.1	-5,489	3,439.3	-3,280.1
1983-84	17,061.2	20,377.3	-3,316.1	-6,061	3,608.4	-3,316.1
1984-85	20,202.1	23,074.7	-2,872.6	-5,391	3,848.5	-2,872.6
1985-86	19,452.8	25,408.6	-5,955.8	-8,763	3,630.2	-5,955.8
1986-87	21,589.4	27,419.4	-5,830.0	-7,644	3,523.9	-5,830.0
1987-88	25,674.9	31,967.5	-6,292.6	-6,570	3,003.5	-6,292.6
1988-89	31,573.0	41,983.0	-10,410.0	-8,004	3,145.6	-10,410.0
1989-90	40,712.9	50,543.1	-9,830.2	-7,670	2,583.2	-9,830.2
1990-91	46,549.0	63,915.0	-17,366.0	-10,635	-433.0	-17,366.0
1991-92	68,371.5	70,608.8	-2,237.3	-3,809	4,257.7	-2,237.3
1992-93	81,799.8	94,563.3	-12,763.5	-9,686	4,474.2	-12,763.5
1993-94	1,06,646.6	1,10,282.4	-3,635.8	-3,350	9,086.9	-3,635.8
1994-95	1,33,166.9	1,43,749.5	-10,582.6	-7,297	17,837.4	-10,582.6
1995-96	1,67,924.2	1,87,569.5	-19,645.3	-16,325	18,415.9	-19,645.3
1996-97	1,97,286.0	2,13,568.0	-16,282.0	-20,103	36,279.0	-16,282.0
1997-98	2,18,948.0	2,39,831.0	-20,883.0	-24,076	36,922.0	-20,883.0
1998-99	2,52,895.0	2,69,684.0	-16,789.0	-38,579	38,689.0	-16,789.0
1999-00	2,94,202.0	3,14,533.0	-20,331.0	-55,675	57,028.0	-20,331.0
2000-01	3,55,630.0	3,67,228.0	-11,598.0	-27,302	45,139.0	-11,598.0
001-02	3,88,453.0	3,72,027.0	16,426.0	-36,182	71,381.0	16,426.0
2002-03	4,62,836.0	4,32,176.0	30,660.0	-42,069	82,357.0	30,660.0
2003-04	5,49,328.0	4,85,345.0	63,983.0	-65,741	1,27,369.0	63,983.0
2004-05	6,93,335.0	7,05,509.0	-12,174.0	-1,25,725	1,39,591.0	-12,174.0
2005-06	8,63,408.0	9,07,145.0	-43,737.0	-2,03,991	1,85,927.0	-43,737.0
2006-07	11,00,017.0	11,44,400.0	-44,383.0	-2,68,727	2,35,579.0	-44,383.0
2007-08	12,64,711.0	13,33,625.0	-68,914.0	-3,24,678	2,99,618.0	-68,914.0

(Sources: RBI, website: www.dbie.rbi.org.in. (1) Reserve Bank of India, www.dbie.rbi.org.in.
(2) Economic Survey, 2007-2008.)

Table 7.6

Inflows (+) / Outflows (-) Under Various NRI Deposit Schemes — US Dollars

(US $ million)

Year	*FCNR(A)*	*FCNR(B)*	*NR(E)RA*	*NR(NR)RD*	*NRO*	*FC(B&O)D*	*FC(O)N*	*Total*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
1990-91	1,465	-	384	-	-	287	-	2,136
1991-92	-311	-	324	-	-	564	-	577
1992-93	825	-	255	637	-	446	-	2,163
1993-94	-1,317	1,075	777	1,131	-	-507	12	1,171
1994-95	-2,249	1,979	1,049	742	-	-533	-2	986
1995-96	-2,796	2,669	-208	1,279	-	-	4	948
1996-97	-1,949	1,773	1,244	2,246	-	-	-9	3,305
1997-98	-2,270	971	1,197	1,256	-	-	-1	1,153
1998-99	-	-632	799	793	-	-	-	960
1999-00	-	337	885	318	-	-	-	1,540
2000-01	-	904	860	553	-	-	-	2,317
2001-02	-	594	1,626	508	-	-	-	2,728
2002-03	-	526	6,195	-3,745	-	-	-	2,976
2003-04	-	762	4,695	-1,816	-	-	-	3,641
2004-05	-	492	84	-1,538	-	-	-	-962
2005-06	-	1,612	1,177	-	930	-	-	3,719
2006-07	-	2,065	1,830	-	426	-	-	4,321
2007-08	-	-960	109	-	1,030			179

(Source: RBI, 2009.)

Note: : All figures are inclusive of accrued interest and valuation factor.

FCNR(A) : Foreign currency non-resident (accounts).

NR(E)RA : Non-resident (external) rupee accounts.

FCNR(B) : Foreign currency non-resident (banks).

NR(NR)RD : Non-resident (non-repatriable) rupee deposits.

FC(B&O)D : Foreign currency (bank and other) deposits.

FC(O)N : Foreign currency (ordinary) non-repatriable deposits.

NRO : Non-Resident ordinary rupee account.

Table 7.7

Inflows (+) / Outflows (-) Under Various NRI Deposit Schemes — Rupees

(Rupees in crore)

Year	*FCNR (A)*	*FCNR (B)*	*NR (E) RA*	*NR (NR) RD*	*NRO*	*FC (B&O) D*	*FC (O) N*	*Total*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*
1990-91	2,629	-	689	-		515	-	3,833
1991-92	-761	-	793	-		1,380	-	1,412
1992-93	2,529	-	783	1,952		1,366	-	6,630
1993-94	-4,131	3,476	2,437	3,549		-1,589	38	3,780
1994-95	-7,062	6,172	3,295	2,330		-1,672	-6	3,057
1995-96	-9,353	10,000	-896	4,335		-	13	4,099
1996-97	-6,919	7,258	4,434	7,950		-	-31	12,692
1997-98	-8,190	6,539	4,381	4,619		-	-5	7,344
1998-99	-	-2,659	3,361	3,336		-	-	4,038
1999-00	-	1,460	3,835	1,378		-	-	6,673
2000-01	-	4,130	3,929	2,526		-	-	10,585
2001-02	-	2,833	7,755	2,423		-	-	13,011
2002-03	-	2,546	29,981	-18,124		-	-	14,403
2003-04	-	3,502	21,574	-8,345		-	-	16,731
2004-05	-	2,211	377	-6,910		-	-	-4,322
2005-06	-	7,137	5,211	-	4,117	-	-	16,465
2006-07	-	9,351	8,287	-	1,929	-	-	19,567
2007-08	-	-3,863	439	-	4,145			721

(Source: RBI, 2009.)

Note: All figures are inclusive of accrued interest and valuation factor.

FCNR(A) : Foreign currency non-resident (accounts).
FCNR(B) : Foreign currency non-resident (banks).
NR(E)RA : Non-resident (external) rupee accounts.
NR(NR)RD : Non-resident (non-repatriable) rupee deposits.
FC(B&O)D : Foreign currency (bank and other) deposits.
FC(O)N : Foreign currency (ordinary) non-repatriable deposits.
NRO : Non-resident ordinary rupee account.

India had a healthy reserve position in 1950-51 (Table 7.8). As development was initiated, imports exceeded exports and the reserve position deteriorated so that controls had to be initiated in the mid-1950s. The 1960s and the 1970s saw a difficult situation with regard to the reserves due to many factors, like increased imports due to wars, droughts, oil shock and, of course, the needs of development. When the situation deteriorated sharply in

1966-67, 1980-81 and 1990-91, the country went to the IMF and World Bank for assistance. In 1991-92, the reserves improved due to the revaluation of the gold reserves in 1990-91 by $3 billion. After 1993-94, the position improved due to the inflow of FII funds. After 2003-04 there was a quantum jump in these flows. From 2004-05, there was a continuous sharp rise in FDI inflows and that helped shore up the reserves even further. As mentioned earlier, there has been a concern that some of the FII flows have been of the hot money variety and therefore, not reliable.

Table 7.8

Foreign Exchange Reserves

End of Financial Year	*In rupees crore*				*In US dollar million*			
	SDRs	*Gold*	*Foreign Currency Assets*	*Total*	*SDRs*	*Gold*	*Foreign Currency Assets*	*Total*
1	2	3	4	5	6	7	8	9
1950-51	-	118	911	1,029	-	247	1914	2,161
1951-52	-	118	747	865	-	247	1568	1,815
1952-53	-	118	763	881	-	247	1603	1,850
1953-54	-	118	792	910	-	247	1664	1,911
1954-55	-	118	774	892	-	247	1626	1,873
1955-56	-	118	785	903	-	247	1648	1,895
1956-57	-	118	563	681	-	247	1184	1,431
1957-58	-	118	303	421	-	247	637	884
1958-59	-	118	261	379	-	247	548	795
1959-60	-	118	245	363	-	247	515	762
1960-61	-	118	186	304	-	247	390	637
1961-62	-	118	180	298	-	247	377	624
1962-63	-	118	177	295	-	247	372	619
1963-64	-	118	188	306	-	247	395	642
1964-65	-	134	116	250	-	281	243	524
1965-66	-	116	182	298	-	243	383	626
1966-67	-	183	296	479	-	243	395	638
1967-68	-	183	356	539	-	243	475	718
1968-69	-	183	394	577	-	243	526	769
1969-70	92	183	546	821	123	243	728	1,094
1970-71	112	183	438	733	148	243	584	975
1971-72	194	183	480	857	269	264	661	1,194

(Contd. . .)

Table 7.8 *(. . .contd)*

End of Financial Year	In rupees crore				In US dollar million			
	SDRs	Gold	Foreign Currency Assets	Total	SDRs	Gold	Foreign Currency Assets	Total
1	2	3	4	5	6	7	8	9
1972-73	226	183	479	888	297	293	629	1,219
1973-74	230	183	581	994	296	293	736	1,325
1974-75	229	183	610	1,022	293	304	782	1,379
1975-76	211	183	1,492	1,886	234	281	1,657	2,172
1976-77	192	188	2,863	3,243	217	290	3,240	3,747
1977-78	170	193	4,500	4,863	200	319	5,305	5,824
1978-79	381	220	5,220	5,821	470	377	6,421	7,268
1979-80	545	225	5,164	5,934	662	375	6,324	7,361
1980-81	497	226	4,822	5,545	603	370	5,850	6,823
1981-82	444	226	3,355	4,025	473	335	3,582	4,390
1982-83	291	226	4,265	4,782	291	324	4,281	4,896
1983-84	248	226	5,498	5,972	230	320	5,099	5,649
1984-85	181	246	6,817	7,243	145	325	5,482	5,952
1985-86	161	274	7,384	7,819	131	417	5,972	6,520
1986-87	232	274	7,645	8,151	179	471	5,924	6,574
1987-88	125	274	7,287	7,686	97	508	5,618	6,223
1988-89	161	274	6,605	7,040	103	473	4,226	4,802
1989-90	184	281	5,787	6,252	107	487	3,368	3,962
1990-91	200	6,828	4,388	11,416	102	3,496	2,236	5,834
1991-92	233	9,039	14,578	23,850	90	3,499	5,631	9,220
1992-93	55	10,549	20,140	30,744	18	3,380	6,434	9,832
1993-94	339	12,794	47,287	60,420	108	4,078	15,068	19,254
1994-95	23	13,752	66,005	79,780	7	4,370	20,809	25,186
1995-96	280	15,658	58,446	74,384	82	4,561	17,044	21,687
1996-97	7	14,557	80,368	94,932	2	4,054	22,367	26,423
1997-98	4	13,394	1,02,507	1,15,905	1	3,391	25,975	29,367
1998-99	34	12,559	1,25,412	1,38,005	8	2,960	29,522	32,490
1999-00	16	12,973	1,52,924	1,65,913	4	2,974	35,058	38,036
2000-01	11	12,711	1,84,482	1,97,204	2	2,725	39,554	42,281
2001-02	50	14,868	2,49,118	2,64,036	10	3,047	51,049	54,106

(Contd . . .)

Table 7.8 (contd.)

End of Financial Year	In Rupees crore					In US dollar million				
	SDRs	Gold	Foreign Currency Assets	Reserve Tranche Position	Total	SDRs	Gold	Foreign Currency Assets	Reserve Tranche Position	Total
1	2	3	4	5	6	7	8	9	10	11
2002-03	19	16785	3,41,476	3,190	3,61,470	4	3,534	71,890	672	76,100
2003-04	10	18216	4,66,215	5,688	4,90,129	2	4,198	1,07,448	1311	1,12,959
2004-05	20	19686	59,3121	6,289	6,19,116	5	4,500	1,35,571	1438	1,41,514
2005-06	12	25674	6,47,327	3,374	6,76,387	3	5,755	1,45,108	756	1,51,622
2006-07	8	29573	8,36,597	2,044	8,68,222	2	6,784	1,91,924	469	1,99,179
2007-08	74	40124	11,96,023	1,744	12,37,965	18	10,039	2,99,230	436	3,09,723

(Source: RBI, 2009.)

Export of goods (Table 7.9) are currently made up of (i) Primary products, (ii) Manufactured goods, (iii) Petroleum products and (iv) Others.

Primary goods consist of agriculture and allied products and ores and minerals. Manufactured goods, consist of: (a) Leather and manufactures, (b) Chemicals and related products, (c) Engineering goods, (d) Textile and textile products, (e) Gems and jewellery and (f) Handicrafts (excluding handmade carpets) and (g) Other manufactured goods.

Table 7.9

Exports of Principal Commodities — US Dollars

(US $ million)

Commodity / Year		*1970-71*	*1975-76*	*1980-81*	*1985-86*
Food and live animals		*546.0*	*1,443.1*	*2,155.9*	*2,051.0*
1.	Fish and fish preparations	40.4	144.4	269.2	334.3
2.	Cereals and cereal preparations	14.5	22.1	307.1	209.5
3.	Fruits and vegetables	82.1	151.1	277.8	326.4
	(a) Cashew kernels	68.9	110.7	177.2	184.0
	(b) Others	13.2	40.4	100.6	142.4
4.	Coffee	33.2	76.8	270.9	223.5
5.	Tea	196.2	272.7	538.0	511.9
6.	Spices	51.4	81.7	140.8	227.1

(Contd. . .)

Table 7.9 *(. . .contd)*

Commodity / Year		*1970-71*	*1975-76*	*1980-81*	*1985-86*
	(a) Pepper black	21.6	42.7	56.0	149.8
	(b) Others	29.7	39.0	84.8	77.3
7.	Feeding stuff for animals	78.0	110.9	200.2	125.7
8.	Sugar and honey	38.8	546.8	50.4	13.7
9.	Others	11.5	36.7	101.6	79.1
Beverages and tobacco		*43.1*	*113.4*	*178.7*	*139.4*
1.	Tobacco, unmanufactured	41.5	107.2	157.3	111.9
2.	Others	1.5	6.2	21.4	27.5
Crude materials, inedible, except fuels		*333.0*	*626.8*	*1,029.8*	*914.6*
1.	Hides, skins and fur skins, raw	5.0	0.2	0.9	0.0
2.	Wool and other animal hair	6.7	5.8	1.2	1.3
3.	Cotton textile fibre and waste	21.7	51.3	223.9	56.9
4.	Jute textile fibre and waste	5.7	12.0	6.7	3.6
5.	Mica	20.6	16.8	24.0	20.9
6.	Iron ore and concentrates	155.2	246.2	383.5	473.1
7.	Manganese ore	18.5	20.2	16.0	16.6
8.	Lac	6.6	14.4	17.1	33.4
9.	Others	93.0	259.7	356.3	308.8
Mineral fuels, lubricants and related materials		*16.6*	*42.1*	*35.2*	*535.3*
1.	Petroleum crude and partly refined	0.0	0.0	0.0	110.5
2.	Petroleum products	11.3	21.7	31.5	416.5
3.	Others	5.3	20.4	3.7	8.4
Animal and vegetable oils and fats		*9.4*	*42.5*	*24.4*	*39.7*
1.	Fixed vegetable oils and fats	0.1	38.3	18.6	38.2

(Contd. . .)

Table 7.9 *(. . .contd)*

Commodity / Year		*1970-71*	*1975-76*	*1980-81*	*1985-86*
2.	Others	9.3	4.1	5.8	1.5
Chemicals		*48.1*	*104.4*	*297.7*	*322.1*
1.	Chemical elements and compounds	10.4	27.7	40.5	43.6
2.	Dyeing, tanning and colouring materials	9.6	21.6	64.1	60.9
3.	Medicinal and pharmaceutical products	11.2	25.5	85.2	129.0
4.	Essential oils and perfume materials	9.4	16.4	93.9	55.1
5.	Plastic materials, regenerated cellulose and artificial resins	4.2	1.4	3.2	5.2
6.	Others	3.3	11.8	10.7	28.3
Manufactured goods classified chiefly by material		*815.0*	*1,599.8*	*2,933.7*	*3,033.0*
1.	Leather and manufactures n.e.s. and dressed fur skins	95.5	231.8	426.3	528.5
2.	Cotton manufactures excluding yarn and thread and clothing	129.0	245.5	349.6	323.9
3.	Textile yarn and thread	45.6	26.1	63.7	68.8
4.	Jute manufactures excluding twist and yarn	250.3	282.5	417.4	214.4
5.	Woollen carpets and rugs	13.5	49.7	207.7	.
6.	Pearls, precious and semi-precious stones	55.5	141.6	761.0	1,153.8
7.	Manufacture of metals n.e.s.	37.0	95.5	234.9	124.3
8.	Iron and steel	119.9	134.9	88.1	45.9
9.	Non-ferrous metals	16.0	232.7	19.6	34.6
10.	Others	52.7	159.3	365.4	538.9
Machinery and transport equipment		*110.2*	*298.9*	*664.9*	*575.0*
1.	Machinery, other than electric	37.6	127.3	272.4	292.4

(Contd. . .)

Table 7.9 *(. . .contd)*

Commodity / Year		*1970-71*	*1975-76*	*1980-81*	*1985-86*
2.	Electrical machinery, apparatus and appliances	21.4	74.1	144.6	129.7
3.	Transport equipment	51.2	97.1	247.9	152.9
Miscellaneous manufactured articles		*100.9*	*365.0*	*1,100.7*	*1,279.7*
1.	Footwear	15.1	25.4	50.7	40.7
2.	Clothing	40.0	233.5	715.3	905.6
3.	Others	45.8	106.2	334.8	333.4
Commodities and transactions n.e.s.		*9.0*	*12.7*	*63.7*	*14.6*
Total Exports		**2,031.3**	**4,648.7**	**8,484.7**	**8,904.5**

Table 7.9 (Contd.)

Exports of Principal Commodities — US Dollars

(US $ million)

Commodity / Year	*1987-88*	*1990-91*	*1995-96*	*2000-01*	*2005-06*	*2006-07 R*	*2007-08 P*
I. Primary products	*3,160.5*	*4,324.0*	*7,256.9*	*71,26.2*	*16,377.4*	*19,686.0*	*27,064.6*
A. Agriculture and allied products	*2,560.7*	*3,354.4*	*6,081.9*	*5,973.2*	*10,213.8*	*12,683.5*	*18,059.9*
1. Tea	463.7	596.4	350.1	391.5	390.9	435.3	502.3
2. Coffee	201.7	140.6	449.3	259.4	358.8	435.1	464.0
3. Rice	261.2	257.2	1,365.7	641.8	1,405.2	1,554.9	2,913.8
4. Wheat	27.3	17.3	109.6	90.9	125.9	7.8	0.1
5. Cotton raw including waste	84.5	471.4	60.8	48.4	656.0	1,349.8	1,987.0
6. Tobacco	104.2	146.8	133.6	189.8	300.6	372.4	479.0
7. Cashew including cashew nut shell liquid	243.1	249.1	369.9	449.5	585.8	553.9	555.1
8. Spices	259.6	130.4	237.2	354.1	477.9	697.9	1,037.3
9. Oil meals	164.6	339.1	702.1	447.6	1,101.1	1,216.4	1,975.6
10. Fruits and vegetables	98.9	118.9	157.7	184.6	481.9	681.1	760.8

(Contd. . .)

Table 7.9 *(. . .contd)*

Commodity / Year	*1987-88*	*1990-91*	*1995-96*	*2000-01*	*2005-06*	*2006-07 R*	*2007-08 P*
11. Processed fruits, juices, miscellaneous processed items	134.3	118.5	265.4	288.4	359.0	405.8	523.2
12. Marine products	411.3	535.0	1,010.8	1,393.8	1,589.2	1,768.2	1,702.6
13. Sugar and mollases	9.1	20.9	151.4	110.6	135.0	720.6	1,404.4
14. Meat and meat preparations	67.7	77.9	187.4	321.7	621.2	732.4	927.6
15. Others	29.9	134.7	530.8	801.2	1,625.3	1,751.6	2,827.4
B. Ores and minerals	*599.8*	*969.6*	*1,174.9*	*1,153.0*	*6,163.6*	*7,002.5*	*9,004.7*
1. Iron ore	427.7	584.7	514.5	357.6	3,801.1	3,902.0	5,745.1
2. Mica	18.0	19.4	8.2	9.1	17.4	16.8	21.6
3. Others	154.1	365.5	652.2	786.3	2,345.1	3,083.7	3,238.0
II. Manufactured goods	*8,195.1*	*12,996.4*	*23,747.0*	*34,335.2*	*72,562.8*	*84,920.6*	*1,01,099.3*
A. Leather and manufactures	*964.4*	*1,449.2*	*1,752.2*	*1,944.4*	*2,697.7*	*3,016.7*	*3,431.6*
B. Chemicals and Related products	*791.6*	*1,728.0*	*3,597.0*	*5,885.9*	*14,769.5*	*17,335.5*	*20,453.5*
1. Basic chemicals, Pharmaceuticals & cosmetics	529.0	1235.1	2,169.2	3,664.0	9,127.1	10,958.9	13,346.6
2. Plastic and linoleum products	50.3	111.2	585.4	915.2	2,819.3	3,252.6	3,352.7
3. Rubber, glass, paints, enamels and products	174.0	310.0	652.6	936.5	2,105.2	2,372.8	2,820.4
4. Residual chemicals and allied products	38.3	71.7	189.8	370.1	717.9	751.2	933.8
C. Engineering goods	*1,152.3*	*2,250.4*	*4,391.0*	*6,818.6*	*21,718.8*	*29,567.2*	*36,722.0*
1. Iron & steel	21.6	161.1	696.7	1,028.3	3,548.3	5,238.6	5,447.7
2. Manufacture of metals	222.3	456.3	826.4	1,577.7	4,233.2	5,081.2	7,023.9

(Contd. . .)

Table 7.9 *(. . .contd)*

Commodity / Year	*1987-88*	*1990-91*	*1995-96*	*2000-01*	*2005-06*	*2006-07 R*	*2007-08 P*
3. Machinery and instruments	397.0	696.2	829.8	1,580.1	5,077.5	6,722.8	8,720.3
4. Transport equipment	195.2	400.6	924.9	991.9	4,323.0	4,949.9	7,025.5
5. Electronic goods	154.1	232.4	670.1	1,051.5	2,173.1	2,854.0	3,299.1
6. Others	162.1	303.8	443.1	589.1	2,363.7	4,673.8	5,275.5
D. Textile and textile products	*3,013.8*	*4,342.6*	*8,031.6*	*11,285.0*	*16,402.1*	*17,373.2*	*19,015.1*
1. Cotton yarn, fabrics, made-ups, etc.	882.8	1,170.3	2,576.6	3,460.7	3,944.8	4,218.7	4,511.2
2. Natural silk yarn, fabrics, madeups, etc., incl. silk waste	106.6	131.0	133.2	316.6	432.6	441.9	381.9
3. Manmade yarn, fabrics, made-ups, etc.	88.2	226.7	750.8	1,058.5	1,957.8	2,204.4	2,858.8
4. Manmade staple fibre	.	.	21.1	36.6	81.8	196.4	276.9
5. Woollen yarn, fabrics, made-ups, etc.	6.1	11.8	62.5	62.4	85.3	85.2	93.1
6. Readymade garments	1,403.4	2,236.1	3,675.6	5,568.9	8,617.7	8,892.3	9,491.8
7. Jute & jute manufactures	185.6	166.3	185.7	151.2	296.3	260.4	322.9
8. Coir & coir manufactures	22.9	26.8	62.9	48.3	133.3	145.9	158.9
9. Carpets	318.3	373.7	563.4	581.7	852.6	928.0	919.7
(a) Carpet handmade	253.3	289.3	420.4	446.9	829.2	898.7	905.7
(b) Carpet millmade	65.0	84.4	126.0	110.5	0.0	0.0	0.0
(c) Silk carpets	.	.	16.9	24.3	23.3	29.3	14.0
E. Gems and jewellery	*2,015.1*	*2,924.1*	*5,274.8*	*7,384.0*	*15,529.1*	*15,977.0*	*19,657.4*
F. Handicrafts (excluding handmade carpets)	*174.3*	*223.9*	*433.9*	*661.5*	*462.0*	*438.0*	*460.7*

(Contd. . .)

Table 7.9 *(. . .contd)*

Commodity / Year	*1987-88*	*1990-91*	*1995-96*	*2000-01*	*2005-06*	*2006-07 R*	*2007-08 P*
G. Other manufactured goods	*83.5*	*78.2*	*266.5*	*355.8*	*983.7*	*1,213.0*	*1,359.1*
III. *Petroleum products*	*500.4*	*522.7*	*453.7*	*1,869.7*	*11,639.6*	*18,678.7*	*24,869.2*
IV. *Others*	*232.6*	*302.2*	*337.3*	*1,229.2*	*2,510.7*	*3,076.2*	*5,973.5*
Total Exports	**12,088.5**	**18,145.2**	**31,794.9**	**44,560.3**	**1,03,090.5**	**1,26,361.5**	**1,59,006.7**

(Source: RBI (2009) and Directorate General of Commercial Intelligence and Statistics.)

P : Provisional, R : Revised, n.e.s. : not elsewhere specified or included.

Note: Due to change in commodity classification by DGCI&S, data on "Chemical elements and compounds", "Machinery other than electric", and "Electrical machinery, apparatus and appliances" from 1970-71 to 1975-1976 and 1976-77 to 1986-87 may not be strictly comparable.

Till the mid-1980s, the categories used were: (i) Food and live animals, (ii) Beverages and tobacco (iii) Crude materials, inedible, except fuels, (iv) Mineral fuels, lubricants and related materials, (v) Animal and vegetable oils and fats, (vi) Chemicals, (vii) Manufactured goods classified chiefly by materials, (viii) Machinery and transport equipment and (ix) Miscellaneous manufactured articles.

This change in categories reflects the changing composition of India's exports, which in turn reflects the changing structure of the Indian economy and the changing division of labour in the world economy based on technological changes and environmental considerations in the advanced nations.

As the Indian economy has developed, the nature of its trade too, has changed. From being mainly an exporter of primary products, as the economy matured more of the higher value-added products have been exported. For example, food and live animals, which used to constitute 33 per cent of the total are now down to 10 per cent of the total by 2005-06. Post-independence, jute products were very important in the exports basket. But these are now down to 0.2 per cent of total exports. Gems and jewellery have done well even though as a per cent of total exports these have declined due to the rapid rise in exports of other categories. Exports of petroleum products have risen from negligible in 1999-2000 to 15.5 per cent of the total figure by 2007-08. Exports of ores and minerals have risen by a factor of 10 in the past 8 years. Within manufactures, it is the chemicals and metals related goods that have done well while the share of leather, textiles and handicrafts has dropped. Overall, exports rose in dollar terms by a factor of 4.3 between 1999-2000 and 2007-08, that is, much faster than the GDP growth. However, they lagged imports, which rose by 4.8 times during the same period.

Exports of gems and jewellery and petroleum goods have depended on imports so the net exports in these cases is lower. The same is likely to be the case for other manufactured goods too, which use a lot of imported inputs, like in the case of automobiles and automobile components. There is also likely to be import of other inputs, like energy, which is needed by the modern sector so that net exports may not be growing as fast as indicated by the data.

In the category of services, the software industry has done well in the past 10 years (*see* Table 7.3). Their exports have risen from 5 per cent to 25 per cent of total merchandise exports between 1997-98 and 2006-07. Invisibles' trade has also done very well after 1990-91 growing by a factor of 44 by 2007-08 (*see* Table 7.2). Invisibles consist of Services, Transportation, Travel, Insurance and Miscellaneous items, including Software Services, Transfers and Compensation of Employees.

Imports (Table 7.10) are currently categorised broadly as Bulk and Non-bulk imports. The former consists of (i): Petroleum, crude and related products, (ii) Bulk consumption goods, and (iii) Other bulk items. The latter category consists of: (i) Capital goods, (ii) Mainly export related items, and (iii) Others. The last category consists of a variety of goods, such as Gold, Scientific equipment, Chemicals and Metal products.

Table 7.10

Imports of Principal Commodities — US Dollars

(US $ million)

Commodity / Year	*1970-71*	*1975-76*	*1980-81*	*1985-86*
Food and live animals	*359.6*	*1,645.8*	*480.6*	*717.6*
1. Cereals and cereal preparations:	281.8	1,546.5	127.0	90.1
(a) Wheat	229.4	1,394.2	96.8	49.9
(b) Rice	39.5	53.6	4.7	11.2
(c) Others	13.0	98.7	25.5	29.0
2. Cashew nuts raw	38.9	38.7	11.0	19.9
3. Spices	0.6	1.3	23.1	19.8
4. Others	38.2	59.2	319.6	587.8
Beverages and tobacco	*0.4*	*1.1*	*1.0*	*3.0*
1. Tobacco, unmanufactured	0.0	0.0	0.0	0.0
2. Others	0.4	1.1	0.9	3.0
Crude materials, inedible, except fuels	*265.0*	*244.9*	*714.9*	*1,227.9*
1. Crude rubber including synthetic and reclaimed	5.1	8.1	39.9	82.2
2. Cotton	130.8	32.5	0.0	10.3
3. Jute	0.2	3.8	2.6	5.0

(Contd. . .)

Table 7.10 *(. . .contd)*

Commodity / Year	*1970-71*	*1975-76*	*1980-81*	*1985-86*
4. Wool and other animal hair excluding wool tops	21.3	29.9	64.2	84.0
5. Manmade fibres and waste thereof	.	.	84.9	17.2
6. Synthetic fibres suitable for spinning #	9.5	7.3	37.2	38.9
7. Metalliferrous ores and metal scrap	14.4	23.3	146.1	296.5
8. Crude fertilisers and crude minerals	46.7	96.3	263.4	381.2
9. Others	37.1	43.8	76.7	312.7
Mineral fuels, lubricants and related materials	*180.0*	*1,412.1*	*6,692.2*	*4,260.8*
1. Petroleum crude and partly refined	140.1	1,211.4	4,234.3	3,013.3
2. Petroleum products	39.7	200.3	2,420.6	1,064.7
3. Others	0.2	0.4	37.3	182.8
Animal and vegetable oils and fats	*50.9*	*19.6*	*889.9*	*629.4*
1. Vegetable oils, fixed	30.5	16.3	863.4	612.3
2. Others	20.4	3.2	26.5	17.1
Chemicals	*254.4*	*875.2*	*1674.7*	*2,348.1*
1. Chemical elements and compounds	89.9	207.5	452.9	890.4
2. Dyeing, tanning and colouring materials	12.2	13.6	26.3	46.1
3. Medicinal and pharmaceutical products	32.1	41.8	106.9	144.8
4. Fertilisers, manufactured	81.0	540.6	824.7	860.5
5. Others	39.2	71.6	263.9	406.3
Manufactured goods classified chiefly by material	*456.1*	*714.1*	*2,834.7*	*3,090.4*
1. Pearls, precious and semi-precious stones	32.5	97.0	526.9	898.8
2. Paper, paper board and manufactures thereof:	33.2	66.4	235.8	184.7
(a) Newsprint paper	24.8	44.1	145.4	106.6
(b) Others	8.4	22.3	90.4	78.1
3. Textile yarn, fabrics, made-up articles and related products	10.4	14.4	75.1	124.7
4. Iron and steel	194.6	359.2	1,077.8	1,139.9
5. Non-ferrous metals	158.0	115.7	603.6	442.8
6. Manufactures of metal, *n.e.s.*	12.3	38.2	113.1	164.7
7. Others	15.1	23.2	202.4	134.9
Machinery and transport equipment	*522.2*	*1,076.4*	*2,302.1*	*3,238.0*
1. Machinery, other than electric	341.1	664.2	1,377.0	2,119.3
2. Electrical machinery, apparatus and appliances	93.1	231.2	328.3	753.8
3. Transport equipment:	88.0	181.0	596.7	464.8
(a) Railway vehicles	18.5	39.5	58.8	27.8
(b) Others	69.5	141.4	538.0	437.0
Miscellaneous manufactured articles	*73.6*	*74.5*	*276.4*	*451.6*
Total Imports	**2,162.3**	**6,063.7**	**15,866.5**	**16,066.9**

Table 7.10 (Contd.)

Imports of Principal Commodities — US Dollars

Commodity / Year	*1987-88*	*1990-91*	*1995-96*	*2000-01*	*2005-06*	*2006-07 R*	*2007-08 P*
I. Bulk imports	***7,019.1***	***10,848.0***	***14,314.3***	***20,815.7***	***61,086.1***	***84,434.2***	***1,12,686.5***
A. Petroleum, crude and products	*3,118.1*	*6,028.1*	*7,525.8*	*15,650.1*	*43,963.1*	*57,143.6*	*79,641.3*
B. Bulk consumption goods	*1,140.6*	*556.5*	*969.7*	*1,443.2*	*2,766.6*	*4,294.2*	*4,574.6*
1. Cereals and cereal preparations	50.9	101.6	24.0	19.1	36.1	32.1	45.0
2. Edible oils	747.2	181.6	676.2	1,308.2	2,024.0	2,108.3	2,558.0
3. Pulses	193.6	268.2	205.0	109.1	559.3	860.1	1311.0
4. Sugar	148.9	5.2	64.5	6.8	147.2	0.8	0.6
C. Other bulk items	*2,760.4*	*4,263.3*	*5,818.9*	*3,722.4*	*14,356.5*	*22,996.5*	*28,470.6*
1. Fertilisers	391.8	984.3	1,682.7	751.8	2,127.0	3,144.1	5,405.7
(a) Crude	107.9	193.2	156.8	222.3	317.8	361.1	467.3
(b) Sulphur and unroasted iron pyrites	139.1	155.1	144.4	89.0	136.0	109.3	362.0
(c) Manufactured	144.9	636.0	1,381.5	440.5	1,673.3	2,673.6	4,576.4
2. Non-ferrous metals	492.8	614.1	903.9	533.8	1,844.4	2,604.9	3,490.5
3. Paper, paper boards, manufactures including news prints	208.3	254.2	473.3	451.1	944.1	1,206.8	1,429.7
4. Crude rubber, including synthetic and reclaimed	92.9	126.1	215.0	151.9	414.1	630.8	785.7
5. Pulp and waste paper	184.0	255.2	275.3	281.7	572.9	639.3	769.6
6. Metalliferrous ores, metal scrap, etc.	372.9	851.7	822.4	774.2	3,881.8	8,345.8	7,905.5
7. Iron and steel	1,017.8	1,177.6	1,446.2	777.8	4,572.2	6,424.7	8,684.0
II. Non-bulk imports	***10,136.6***	***13,224.6***	***22,361.0***	***29,720.8***	***88,079.6***	***1,01,315.1***	***1,26,964.0***
A. Capital goods	*5,063.8*	*5,835.6*	*10,330.2*	*8,941.1*	*37,666.2*	*47,069.2*	*58,393.2*
1. Manufactures of metals	123.8	168.5	278.2	390.3	1,211.1	1,603.6	2,657.6
2. Machine tools	163.2	263.2	371.9	219.1	1,076.2	1,481.3	2,210.7
3. Machinery except electrical and electronic	2,016.5	2,100.0	3,924.4	2,708.8	10,009.8	13,850.4	19,660.8
4. Electrical machinery except electronic	843.2	948.7	386.4	481.0	1,504.3	1,959.8	2,982.8

(Contd. . .)

Table 7.10 *(. . .contd)*

Commodity / Year	*1987-88*	*1990-91*	*1995-96*	*2000-01*	*2005-06*	*2006-07 R*	*2007-08 P*
5. Electronic goods	.	.	1,752.3	3,508.5	13,241.7	15,972.6	20,324.3
6. Computer goods	.	.	120.8	186.0	901.9	967.0	1,019.6
7. Transport equipment	586.1	930.5	1,105.1	700.3	8,838.5	9,438.6	8,248.2
8. Project goods	1,330.9	1,424.7	2,391.0	747.2	882.7	1,795.9	1,289.2
B. Mainly export related items	*2,584.8*	*3,680.0*	*5,257.5*	*8,058.6*	*18,641.0*	*17,871.7*	*20,758.1*
1. Pearls, precious and semi-precious stones	1,556.7	2,083.1	2,106.0	4,807.7	9,134.4	7,487.5	7,975.1
2. Organic and inorganic chemicals	834.4	1,275.6	2,565.5	2,443.9	6,984.1	7,830.7	9,878.7
3. Textile yarn, fabrics, made-ups, etc.	144.0	246.7	358.7	596.8	2,050.5	2,151.2	2,478.5
4. Cashew nuts	49.7	74.7	227.2	210.3	471.9	402.4	425.8
C. Others	*2,488.0*	*3,709.0*	*6,773.3*	*12,721.1*	*31,772.4*	*36,374.2*	*47,812.7*
1. Gold and silver	.	.	867.1	4,638.0	11,317.7	14,646.0	17,845.8
(a) Gold	.	.	.	4,121.6	10,830.5	14,461.9	16,716.4
(b) Silver	.	.	.	516.5	487.2	184.1	1,129.4
2. Artificial resins and plastic materials, etc.	437.4	610.0	803.4	554.9	2,267.7	2,584.8	3,684.7
3. Professional, scientific controlling instruments, photographic optical goods	385.4	590.6	669.1	878.8	1,972.7	2,341.0	3,060.9
4. Coal, coke and briquettes, etc.	168.9	440.0	925.5	1,103.1	3,868.7	4,576.8	6,411.9
5. Medicinal and pharmaceutical products	129.4	261.1	406.0	374.7	1,027.9	1,296.5	1,663.9
6. Chemical materials and products	147.5	159.4	245.5	334.5	1,052.5	1,321.6	1,624.1
7. Non-metallic mineral manufactures	80.8	113.1	151.5	173.7	621.9	780.0	1,046.6
8. Others	1,138.6	1,534.9	2,705.2	4,663.4	9,643.2	8,827.5	12,474.8
Total Imports	**17,155.7**	**24,072.5**	**36,675.3**	**50,536.5**	**1,49,166.0**	**1,85,749.0**	**2,39,651.0**

(Source: RBI (2009) and Directorate General of Commercial Intelligence and Statistics.)

P : Provisional, R : Revised, n.e.s. : not elsewhere specified or included.

: Data prior to 1976-77 relate to synthetic and regenerated fibres (man-made fibres).

Note: Due to change in commodity classification by the DGCI&S, data on "Chemical elements and compounds", "Machinery, other than electric and electrical machinery apparatus and appliances" from 1970-71 to 1975-76 and 1976-77 to 1986-87 may not be strictly comparable.

A different categorisation was followed prior to the mid-1980s. It was (i) Food and live animals (ii) Beverages and tobacco, (iii) Crude materials, inedible oil, except fuels, (iv) Mineral fuels, lubricants and related materials, (v) Animal and vegetable oils and fats, (vi) Chemicals, (vii) Manufacture goods classified chiefly by materials (viii) Machinery and transport equipment and ix) Miscellaneous manufactured articles.

The change in categorisation reflects the changing structure of trade with the rest of the world because of the changing structure of the Indian economy, which is producing a different mix of products than earlier and, therefore, requires different things from the world, either as inputs or for consumption. Further, the economy is producing some of the things that it was importing earlier and, therefore, does not need them from the outside or needs less of them. Finally, it needs inputs, like gems to sell gems and jewellery or crude oil to export petroleum products or software and hardware to export software and software-related services. Of course, it needs greater amounts of energy to increase automation in general.

The largest single item of import is energy, reflecting the rising energy intensity of the economy (*see* Table 5.15) and India's inability to find adequate internal sources to fulfil this demand. It accounted for 6 per cent of total imports in 1960-61, 10 per cent in 1970-71, 42 per cent in 1980-81 and 33 per cent now. Capital goods have been another major import due to the needs of industrialisation and modernisation. It was 31 per cent of total imports in 1960-61, 25 per cent in the early 1970s, 15 per cent in the late 1970s, 20-30 per cent in the mid-1980s and since 1990-91 around 25 per cent. However, it dipped to 18 per cent around 2000-01. The large initial figure reflects the need to import to industrialise. The decline in the numbers is a reflection of the reduced imports as India started manufacturing some of the capital goods in its engineering units following import substitution. The increase in the 1980s is a reflection of the liberalisation of imports, which accelerated in the 1990s but with intermittent dips when the economy slowed down.

India's principal trade partners have also changed. The pre-eminent position of UK in 1947 changed as the US rose in importance. EU and Japan also improved their positions. The Soviet Union became a significant partner due to its supply of various technologies for industrialisation and militarisation, its needs of consumer goods that India could supply and because of its willingness to enter into rupee trade, reducing the BOP pressure on India. However, with the collapse of the Soviet Bloc, trade with this group of countries fell sharply in the 1990s and has still not become significant. Due to the rising needs of energy and the oil shocks, the OPEC countries have been important trading partners since the 1970s. Finally, in recent years as trade with China opened up, it has rapidly become a significant trading partner, displacing the US from the top spot.

The significance of the rise in trade with China cannot be missed. It suggests that trade with neighbours should be paid greater importance than hitherto since there can be complementarities and transport costs would be much lower. It also helps in the normalisation of relations, thereby suggesting a two-way linkage between political and economic policies.

Trade policies have undergone big changes from the early 1950s when the policies were liberal to becoming restrictive in the late-1950s due to the BOP crisis. This trend deepened in the 1960s to promote import substitution. The policy direction was somewhat reversed in the early 1980s and completely so starting 1991. Up to 1991, trade policies were guided by the internal needs of the home market. During this period, demand side policies were pursued. Post-1991, supply side policies have dominated along with external orientation and greater flow of trade. Indeed, in an open economy, trade policies and internal economic policies have to be closely aligned to avoid problems and contradictions. In fact, after 1991 with the NEP in place, trade had to be encouraged, lest the flood of imports lead to a BOP crisis and policy failure. The WTO process represents the external liberalisation as an adjunct to the internal liberalisation. Those who argue that India can leave WTO forget that this is not feasible without changes in the internal policy paradigm and a complete change in outlook to trade.

The black economy has also played an important role in the trade policy changes. Growing smuggling and flight of capital brought about repeated crises in BOP and forced policy changes. In 1990-91 also these two factors played an important role (More in Chapter VIII). In fact, through the black economy, capital movements were taking place so that the economy had effectively become open. However, policies were being formulated as if the economy was closed and that was an important reason for their failure.

In brief, exports and imports have reflected the wider policy changes in the economy not only with respect to the trade policies but also the broader structures of the economy, international relations due to global changes and the international perspective of the leadership. For instance, catching up with Western modernity has led India into an energy-intensive development and made it dependent on increasing energy imports that has led to crises time and again whenever an oil shock has reared its head. This has also forced India into policy paradigm changes as discussed in Chapter III, Section 6.1.2.

In brief, trade policies cannot be independent of other economic policies. They have to be complementary to each other, and hence need to change with the policy paradigm, whether internal or external, such as with the creation of the WTO and the Indian policy maker's stance towards it. Of course, policies should change as the global environment changes but the issue is whether they follow because there is a well-defined Indian interest or they are led by others because of a lack of a well-defined interest.

3. Conceptual Aspects of One-Way Globalisation and Marketisation

In Chapter II, Section 2, it was argued that India is undergoing one-way globalisation since around 1750, meaning thereby that ideas and influences are coming to India from outside. It was suggested that earlier also India was globalising but in a more equitable manner with a two-way exchange with the rest of the world. It was also argued that it is the different phases of one-way globalisation that are manifesting themselves in the post-independence period (*see* Chapter III, Chapter IV, Section 4.1 and Chapter V, Section 1.1).

It was argued that the latest phase of globalisation in India since 1991 is one of marketisation meaning that the philosophy underlying markets has seeped into the various social processes, whether it be the institutions of marriage or child rearing or social interactions. It is not that markets did not exist earlier, they have been there for a long time but the social processes were not dominated by its philosophy and other considerations mattered.

3.1 Efficiency, Optimality and Consumer Sovereignty

Underlying marketisation is the idea of individuals maximising their physical welfare to the exclusion of all else. A notion of "efficiency" is defined on the basis of the concept of "Pareto optimality". This idea stands for people exchanging what they have in order to maximise their welfare. The underlying assumption is "consumer sovereignty", that is, consumers know best and should be allowed to fulfil their desires. How these desires and wants are created is immaterial. So, it is legitimate to create demand through advertising and other means. For instance, instead of drinking water, some may have soft drinks (even though it is 99 per cent water and sells for 100 times the price of tap water), initially due to peer group pressure and later due to addiction. Similarly, to promote smoking and drinking of alcohol a macho image is associated with these activities through advertising, films and so on.

The pattern of production and consumption is often governed by the well-off sections of society. Initially, when some new products and services are introduced in society they are affordable only by the rich. So, the content is as per their tastes, such as in the case of programming of radio and TV. As technology advances and often because of the scale economies, these goods and services become affordable by the vast majority (say, in the case of computers and mobile phones). However, by then the content and the manner of use have been defined by the affluent who were the early consumers. There is a strong demonstration effect from the well-off to the common peo-

ple for whom such consumption becomes a way of showing their success and that they have arrived.

In brief, the content of "consumer sovereignty" is dictated by psychological factors, frequently beyond the control of individuals. It is often determined by big corporate interests, which profit from indiscriminate consumption. For instance, Christmas in the West and Diwali in India have become highly commercialised with the practice of exchanging gifts having turned mechanical. Mother's day, Father's day and Valentine's day have also been introduced with a commercial motive in mind to increase profits. Hence, the concept of "sovereignty" is not valid in the case of the modern "consumer" who is driven by others.

There is a demonstration effect emanating from the West and impacting the Indian elite and through them the rest of the society. For instance, excessive expenditure at social functions, like weddings and the desire to show off one's status has led to marriages becoming a burden on many families in the middle and the lower classes. Marriage is also seen as a way of upward mobility with demand for luxury consumer goods as dowry. The result is the desire of families to have sons and not daughters leading to the decline in the sex ratio in some of the prosperous parts of the country.

Under the philosophy of marketisation, markets are considered to be objective. So, market outcomes are considered to be desirable while social outcomes are seen as subjective and less desirable. Since society can come to judgements different from or contrary to what the markets may want, it is suggested that society should not intervene. As a result, society is in a state of retreat and so are the social values, which have been evolved by that society. Hence, on many issues individuals now do not take a stand, such as on what is good or bad in society, which is defined in social terms. The market by itself does not define what is good or bad. It is simply concerned with fulfilling the demand of individuals — whether the demand is socially good or bad is immaterial because that is defined by society. For instance, if someone wants to smoke cigarettes, market would supply them because that is "efficient". It is society which argues that cigarette smoking is injurious to health but as far as the markets are concerned there is nothing good or bad about it.

The distinction between the positive and the negative aspects of social activities has become blurred. Earlier, society enabled the individual to clearly distinguish between them and take a stand. It was argued that the negative had to be eliminated by strengthening society and individuals. This has changed with the acceptance of the principle of optimisation, the negative aspects have to be accepted (not eliminated). The net benefit has to be maximised. For instance, while smoking leads to health problems, if it is enjoyed by people then that has to be maximised as well. Further, since to-

bacco is the milch cow for the exchequer, revenues also need to be maximised. Hence, it is argued that smoking ought not to be banned but only minimised, subject to its enjoyment by those hooked on to it and the revenue generated.

There is no need to ask why the negative aspects have come into existence in society. The fact that commercial interests push it to young children, that they used to spend massively on advertising before it was banned, that they used the entertainment industry till that was disallowed and now push it through sponsorships, are not taken into account. The market philosophy is that whatever exists has to be accepted. Another example of this trend is tax evasion which under this philosophy has to be accepted rather than eliminated. So, there is literature suggesting that there is optimum tax evasion (Singh, 1973) and the state need not spend resources beyond a point to eliminate this practice.

In all such cases, marketisation suggests that one need only look at the short-run constraints and optimise. However, the causes are social and long–run but these are to be left out of the analysis. In economics, especially the mathematical version, the social aspects are considered taboo and difficult to deal with. Hence, it is to be ignored. Consequently, people are not expected to make judgements about what is correct and act on that. Everyone is supposed to grab the opportunity that comes their way. What this opportunity is all about is immaterial. This opportunity may involve promoting a negativity in society — like, much of our advertising and entertainment today — but that does not matter. It is a job that has to be done. If a pretty woman is used for selling goods that is legitimate, like in any fashion show. Similarly, no distinction need be made between essentials and non-essentials in society. Everything is a good or a service. Only the elasticity of demand for it differs. So, if there is demand for luxury goods that is not produced, it should be allowed to be imported, even if that means shortage of resources for production for the poor people.

3.2 Dollar Vote, Marginalisation of the Marginal, Democracy and More is Better

As argued above, markets do not have any inherent value of their own and in that sense are amoral and immoral. They are just a mechanism for the supply of goods and services to the consumers. There are two principles that guide the markets — the "dollar vote" and "more is better".

Samuelson suggested that markets work on the "dollar vote" (Samuelson and Crowley,1986), that is, on the purchasing power of the individuals. If one has one rupee, one has one vote and if one has a million rupees one has

a million votes. It runs contrary to the democratic principle of "one person one vote" and in this sense markets are undemocratic. Even though my rupee is equal to anyone else's rupee and in this sense the market appears to be democratic, but it is the total "dollar vote" that counts in the market. In an unequal society, different people have different endowments and that makes them unequal in the market. The individual, the unit of political and social analysis does not matter and in this sense there is valuelessness in the market. It does not matter that the person is old or young, man or woman with different needs. If the individual has purchasing power he / she can get whatever he / she needs but if not then even the essentials may not be available. The implication is, if one is marginal in the market then one becomes even more marginalised — "marginalisation of the marginal".

It works at the international level where an individual from a rich society with 50 times the per capita income of an individual from a poor society will count for 50 times more. No wonder, in international fora the US has a much higher weight than the developing countries, like India and can dictate policies. In India, the richer states have higher weight than the poorer states and within a rich state the weight of the advanced areas is higher than that of the poorer parts. So, the marginalisation works at the international, the national and the regional levels and both in income and in wealth terms.

Institutions like the World Bank and the IMF whose policies are based on financial voting power are not democratic in their functioning and push the interests of the dominant economic powers in the world (Section 5 below). The policies they enforce are not framed keeping in mind the interests of the citizens of the countries that have to follow the conditionalities but this is considered legitimate in the market. No wonder, in 1991 the New Economic Policies had to be imposed on India rather than being implemented after a wide discussion. The policies pushed by the WTO were not even discussed in the Indian Parliament or the legislatures even though they would have serious effect on the people for the coming decades. The government argued that these are international obligations that have to be fulfilled. But the question is — if these obligations go against the interest of the people then whose interests are they serving?

Often, the rise of the markets is associated with the spread of democracy in society. This is a spurious correlation. As capitalism spread in the presently developed countries and markets took hold, the feudal order prevailing there weakened and the movements for democracy against monarchy gained strength. The social and political movements were strong and the markets too nascent to counter these movements. It is these movements that gave rise to a different political structure and not the markets, which only helped in the demolition of the feudal order. Hence, it does not follow that as marketisation strengthens its grip over society, democracy will spread. On the con-

trary, where social movements are weak it will result in inability of democracy to take hold in society and dictatorships and authoritarian rule are likely to hold sway as has happened in many developing countries. In these countries, societal processes remained weak during their independence struggle and collapsed soon after independence.

"More is better" signifies that the welfare of the individual increases with consumption. So, if one has one car, buying a second one improves the welfare of the individual and so on. This way of viewing things promotes consumerism in society. Advertising to promote dissatisfaction and inadequacy in the individual, built-in obsolescence and high cost of maintenance are used to push people to consume more. If people are unsatiated because they want to have the next thing or the latest model, they would consume more. Competition, one-upmanship and peer group pressure are fostered to promote consumerism.

That it may have negative aspects like damage to the environment is immaterial. Thus, in Europe, in spite of the Green movements for the last 30 years, per capita consumption has not declined. Consumerism creates social tensions and impacts the minds of the young with life-long effects. People fall into debt and the family finances are badly affected leading to malnourishment and so on. In India, owning a mobile phone or a TV may have become more important for a lower class family than the nutrition of the family or the schooling of the girl child. Advertisers work on the maxim, "catch them young". While earlier this was the motto used to inculcate "civic sense" and positive values amongst the population now it is used to create permanent consumers.

A corollary of this principle is, "sacrifice is stupidity" and hardly a virtue. However, to build a society or a family, sacrifice is essential. For instance, during the national movement people sacrificed their lives, careers and children for the sake of the nation's independence. At Moirang in Manipur a plaque was put up by the soldiers of the INA who reached there which says, "When you go home tell them of us and say, for your tomorrow we gave our today".

Markets are amoral and immoral because the social aspect is unimportant. Optimising one's gain is all that is important. Sacrifice is a social concept and no more valid. In line with the Smithian invisible hand, maximising one's gain also maximises the social gain and Pareto Optimality is partly that. Whatever the market allows is legitimate. A company declaring a high dividend is supposed to be well run rather than it being said that it should charge less and benefit the consumers. The present philosophy is, if the market allows it, why not. Earlier, the village "baniya" charging a usurious interest rate of 48 per cent was considered evil and a blood sucker but today companies declare 100 per cent dividend and they are considered well run

and desirable to invest in. Speculation on the Thai Bhat in 1997 led to its collapse and a million people went below the poverty line while some funds made billions of dollars in profit but this is legitimate since the market allows it — no value judgement needs to be made regarding such actions. Greed has been raised to a new high pedestal.

3.3 Homo-economicus

The retreat of society and the advance of marketisation have resulted in the view of "people" as homo-economicus. Current day economic thinking is based on this rationale. An individual is nothing more than an economic agent. Other attributes like social, political and cultural do not matter. So, a person is a rational being maximising his or her gains in a given situation. Thus, everything is weighed in economic terms. Homo-economicus and short-termism lead to the belief that making profit in any way is legitimate and grabbing any opportunity that comes one's way is acceptable. If one did not do so, someone else would do so. Even marriage is taken to be an institution for making gains and losses and if one is contributing more than one is getting then why stay in that marriage. By this logic, one or the other partner would go for divorce. The notion of sacrifice is alien to this thinking.

Conscience is a cost to individuals, since it prevents them from doing certain things and, therefore, it has to be minimised. The feeling of guilt is to be minimised since one is supposed to be hard-headed, working for narrow short-run gains. This philosophy has aggravated alienation and self-centeredness amongst individuals because everything has to be measured from the person's point of view.

In this framework "people" are nothing more than sophisticated machines or alternatively cogs in a big machine. They are capable of doing many things rather than a single task. Unemployment then implies only switching off a machine. The social consequences of this are unimportant — that the wife may have to carry a double burden or the children may have to miss education or the man starts drinking heavily, is completely outside this framework. Advertising is designed to exploit the weakness of people so that they are unable to resist consumption and they behave in a herd like manner under pressure of psychologists working as advertisers. All this is legitimate because of the mechanical attitude adopted. This reduces everyone's status, including that of the so-called famous who begin to believe everything is saleable.

So, the Bachchans, the Tendulkars or the Khans of the world are willing to sell their names to earn more money (not that they do not have much but as is said, it is capital that drives men and not the other way around, so more is better) irrespective of what damage it may cause to society and especially

the children whose heroes these people are — who are greatly affected by what their heroes say or do. The responsibility that these people have to their fans is no consideration. Children (and even adults who hardly know better) who as yet have not developed social discrimination (because it has become a very complex affair) and are impressionable are taken for a ride by these people without any qualms. These celebrities are used by advertisers precisely because they would be able to sway the audiences and yet these great names do not consider it their responsibility that they should not sell their names to be misused by the highest bidder.

Consumerism is a corollary of people being homo-economicus. Many products are not what the advertisements claim them to be. For instance, medicines, weight loss formulae, creams and hair growing agents may not have the claimed affect or may even have side effects but these are mentioned in small print if at all. The soft drinks advertisers do not add a line at the end that it may be harmful to the health of children or that they may not recommend it to their own children. Half truths are the order of the day. Children seduced by high pressured advertisements may not believe others telling them that soft drinks are bad for their health and may get addicted to the product and find it difficult to give up the habit at a later stage causing long-term damage.

The social concerns of those who have made money through the entertainment industry seems to be in inverse proportion to the amount of money they make. Perhaps they get used to illegalities and falsehoods all around themselves in their professions and have to claw their way up so that they stop having the social discrimination regarding good and bad; like machines or automatons, perhaps they only focus on how to perform well in their limited fields of endeavour. Cricketers and tennis players are known to not mind using every square inch of their attire to advertise some product or brand as if they are a walking hoarding. If money is the only concern then social considerations would not matter and this filters down to the impressionable minds in society. Perhaps in the highly competitive world they live where "dog eats dog" is the norm, they have little time either for social niceties or to consider the very complex and evolving future of their societies — minimising their conscience and eliminating any guilt of any kind. There's no time to wonder about the consequences of their actions for their own children, much less their grandchildren and even less on other children.

Of course, advertising is legal and the rich and the famous are not committing illegality while doing advertisements. Indeed in a world where "more is better" and consuming more is the norm, can there be anything wrong in advertising (leaving aside cases of false and misleading advertising and assuming the best that all advertising is at least partly correct)? Doubts would begin to arise only if the long-run interest of society is taken into ac-

count or if one has a social conscience and considers one's responsibility to fellow citizens. That is, one has to stop being homo-economicus and revive one's conscience. Only if one thinks of one's social responsibility would one say no to opportunities that come one's way that are harmful to society. If one is a prisoner of advertisers and agents handling one's social affairs, then how can these wider concerns ever enter one's considerations?

Today, the world is non-intuitive so that common sense does not always work or is relevant only in a limited context. Just doing what one's heart dictates is to say, give in to the "good things" of life because that is what we are told are good (so GenNext is supposed to live it up). That this makes us consumerist is no concern of the individual. That in the process one may be doing the socially incorrect thing is of no consequence for the individual. The notion of the good thing in life is cultivated systematically by the advertising industry and it deliberately uses sex, addiction and violence to do so. These soon become part of what is considered the good things in life — partying, drinking, smoking, pleasure drives — and that is what the young then aspire to do. Anyone who does not do so is considered to be a bore — a nerd. So, resistance to such life-style results in social isolation, which few young (or older) people can stand up to. Therefore, these things have become the norm for the young or led to the philosophy of do what the "heart dictates". In this situation, resisting / opposing the norm becomes counter-intuitive. All this turns people purely into economic beings (homo-economicus) and facilitates the rule of economic interests in society.

3.4 International Division of Labour, Loss of Value of Ideas and Widespread Market Failure

Based on the notion of "efficiency", the global market as the biggest market is considered the most efficient, and hence, the pressure on countries to open up their economy and implement changes that go with it. An international division of labour has emerged — that between the polluting and the clean technologies and the high, the low and the intermediate technologies. This is determining the pattern of production in the world. Further, it is not determined by the needs of the people but by purchasing power. The result of this is that the poorer countries are forced to damage their environment to supply cheap products to the richer countries and in the poorer countries the poor people suffer ill health and low living standards. Consider the recycling of plastic waste, hospital waste, battery waste and breaking of ships, which are all located in India, Bangladesh and China and the health of the poor people doing these jobs is seriously impaired.

Another aspect of the marketisation philosophy is to view social problems in isolation rather than holistically. Consequently, developing a wider vision becomes difficult and only partial or *ad hoc* solutions are tried. For instance, if agriculture is viewed only in terms of production and not also as the largest employer in the economy then in case of a shortage of food, if there is foreign exchange reserves with the country, one can import food. The impact that it will have on employment and poor people in agriculture or that it may affect food security becomes immaterial. That if international food prices are high at the time of import (as in 2007) it may require higher subsidies, otherwise there would be rapid inflation, is ignored. Thus, a very partial solution is sought to be imposed under this kind of thinking. Take another example, under this thinking smuggling is considered to be optimal and its wider impact on society, the individual and the savings of the economy are not taken into account. Smuggling of gold can be thought of as optimal under this philosophy if the associated loss of savings and impact on development are not taken into account.

Technology has made the future hazy, so we are not able to anticipate what is going to happen in the years ahead. For instance, 15 years back there was no internet in India and now for a segment of the population imagining life without it is difficult. The mass of information flow through the internet was unimaginable by most even 20 years back. Such rapid changes make it difficult to think of the future and leads to confusion so that people become short-termists and ad-hocists. Thus, market and rapid technological change are reinforcing each other in the same direction.

It is short-termism that has led to a narrowing of horizons in both space and time in Indian society. The process is accelerated by society losing the value of ideas (*see* Chapter XI). We are happy to borrow ideas rather than generate our own. This process pre-dates colonialism and is a cause of its spread in India. It got strengthened by one-way globalisation. Our intellectuals have been largely happy to be "derived intellectuals" rather than be original thinkers. They are happy to recycle western knowledge and view things through western prisms. To the elite success means western modernity.

It is only Gandhi who understood the pitfalls of this direction and, therefore, in his *Hind Swaraj* critiqued important symbols of western modernity, like railways, British Parliament, lawyers and doctors. This kind of courage has not been shown by other leaders of this or other countries. Today's intellectual considers it important to look "reasonable" and not appear to be one-sided — views have to be "balanced". It is another matter that taking the balance between a correct and an incorrect view would also be incorrect. When we import a technology which is created in a society operating at $45,000 per capita into our society which is still at $800 per capita then we create problems for ourselves. But our elite does not see this in the rush to

modernise. Other than Gandhi who the modernisers consider to be backward (even Nehru thought so), there is no internal (independent of western modernity) critique of developments in India in the last few hundred years and we continue to view the world though the western prisms.

In India, the ruling elite consisting of the top 3 per cent in the income ladder consider globalisation to stand for linking up with the international elite. Their emotional attachment with the country is marginal. For them progress means getting things for themselves. So, if a latest model car or clothing or watch is introduced in the western market they also want to get the same within a short span of time. What impact it has on the rest of the society does not matter. For them it is important to have electricity and water 24 hours in their homes but if there are power cuts of 20 hours in a village 20 km away that is immaterial. Another school in a village or a health centre in a remote area is not a sign of progress for them. So, wider development is no more a priority for them. Their children go abroad for studies and they could go for healthcare to the USA and the UK. So, good schools or good hospitals in the country matter less to them. In brief, they are not willing to curtail their conspicuous consumption in the interest of the rest — sacrifice is stupidity. This is the current context of western modernity and trickle down that the ruling elite has practised since Independence.

In the rush for marketisation what is missed out is that markets fail in large parts of the economy and, therefore, there can be no optimality without government intervention. As societies have progressed, many more kinds of market failures have come up. It is only under the first best situation that individual markets can be corrected by the government, but under the second best situation all markets fail. Therefore, correction cannot be carried out only in one market and the government must intervene to set them right in the entire economy to achieve optimality (*see*, Tresch, 1981: 300 and Kumar, 1995).

In brief, marketisation is leading to a crisis in the lives of ordinary citizens because the individual is not just an economic agent but has other social aspects to her / his existence. In the drive for making profits any way, with greed raised to a new high pedestal and ignoring the social, political and cultural aspects, the citizens are facing a crisis. This has fuelled the growth of the black economy in India, which leads to further atomisation of society (*see* Chapter VIII).

The current policy of "growth at any cost" with all costs falling on the marginalised sections and the environment are based on the notion of homo-economicus and is leading to a variety of problems for the marginalised. This is evident in China where the pollution levels and accidents in industrial and mining segments have become routine. The resulting lack of social harmony is now disturbing the Chinese leadership also. These features are

also visible in India, especially after 1991. Such policies have weakened the nation state and given the impression that with globalisation the world has become one village so that the nation state is declining in importance. This is enabling the MNCs and the developed world to dominate the developing world. The stronger nations (like China) are doing better, while the weaker ones are floundering.

One-way globalisation dominated by the West is adversely affecting the developing world. This kind of globalisation is like a weapon of mass destruction (WMD). In the past, we have seen that domination has made whole civilisations disappear, like the Incas, the Mayans and the Red Indian tribes in the USA. This kind of globalisation continues to disrupt the internal dynamism of nations by linking them to an external power and continues the process initiated during the colonial rule.

4. Aid and Capital Flows: Some Considerations

The role of aid, capital flows and trade in development has been contentious. Underdeveloped nations need to develop rapidly but are short of capital so they could do with help from the developed nations that have the capital and the technology to enable development to take place. However, it is unclear as to whether that has indeed happened. At the time of independence, in most cases the influence of the colonial masters over their former colonies remained strong. For instance, the former colonies of England remained under its influence and they were brought under a Commonwealth of nations. The former masters gave aid to the newly independent nations because of the pre-existing inter-linkages (including trade, institutional links and educational relations) and the need of the former masters to retain a degree of hold over the former colonies. There was considerable complementarity between the economies of the former masters and the colonies, including the investments by the companies of the coloniser. These relationships could only be diluted over time.

It may be argued that the exploitation of the colonies by the colonisers, which resulted in the drain of the resources of the colonies, caused both the underdevelopment of the colonies and the development of the coloniser. Thus, it could be argued that the colonisers had a moral obligation to help the colonies. However, hard-headed rulers of the colonial powers are seldom given to such niceties, like feeling guilt for past actions. If this was an emotion they ever suffered from, they would have given up colonising long back. Instead, they argued that they did a favour by civilising the colonies that were backward or barbaric (For instance, *see* Macaulay's Minutes quoted in Ghosh, 1995). So, to these hard-headed rulers, aid was not an obli-

gation but an instrument of continued control to keep their former dependencies in line and protect their national interest.

India has received a lot of aid from different countries and multilateral institutions like the World Bank and the ADB (*see* Table 7.11). It has received food aid under PL 480. Aid has typically had strings attached to it. It has had political and social costs associated with it in addition to the economic costs. It has been used as an instrument for opening the markets of the economy receiving aid. For instance, Japanese or US aid has been tied to the Japanese or US suppliers, as the case may be. These suppliers knowing that India could only buy from them quoted much higher prices, which resulted in higher costs and lower benefits to the aid receivers. Multilateral aid from the World Bank or ADB does not have this kind of problem because of global tendering. But then they have much higher political and other costs, like weakening of democracy due to the bypassing of legislatures, prying open of the national economies of clients and so on. In purely financial terms, in several years, assistance has been negative with outflows surpassing the inflows. If flight of capital could be included in the calculations, then India has been losing capital rather than receiving aid from the advanced countries. The story is the same in the case of Latin America and Africa.

Even concessional aid has given way to market-based capital flows since the demise of the Soviet Union. To get capital, national economies have had to compete with each other and grant concessions to international capital — in taxation, labour relations, land, etc. Thus, the costs to the national economy are substantial and because the local elite are anyway squeezing more and more concessions under the policies of marketisation, the burden of the additional concessions falls on the poor (*see* Chapter V, Section 1.2).

Table 7.11

External Assistance (Financial Year) — Rupees

(₹ in crore)

Year	Authorisation			Utilisation			Debt Service Payments			Net Inflow of Aid
	Loans	Grants	Total	Loans	Grants	Total	Amortisation	Interest	Total	
1980-81	3,771	76	3,847	1,765	397	2,162	518	287	805	1,357
1981-82	2,767	207	2,974	1,519	346	1,865	538	311	849	1,016
1982-83	2,549	423	2,973	1,909	343	2,252	587	360	947	1,305
1983-84	1,701	387	2,088	1,962	303	2,266	615	417	1,032	1,234
1984-85	4,409	471	4,880	1,962	397	2,359	647	529	1,176	1,183
1985-86	5,337	313	5,650	2,493	443	2,936	776	591	1,367	1,569

(Contd. . .)

Table 7.11 *(. . .contd)*

Year	Authorisation			Utilisation			Debt Service Payments			Net Inflow of Aid
	Loans	Grants	Total	Loans	Grants	Total	Amortisation	Interest	Total	
1986-87	5,730	430	6,160	3,176	429	3,605	1,176	853	2,029	1,576
1987-88	8,203	1,062	9,265	4,574	478	5,052	1,581	1,043	2,624	2,428
1988-89	12,856	214	13,070	4,739	566	5,304	1,646	1,301	2,947	2,357
1989-90	10,106	720	10,826	5,138	665	5,803	1,987	1,699	3,686	2,117
1990-91	7,601	522	8,123	6,170	534	6,704	2,329	1,954	4,283	2,421
1991-92	11,806	902	12,708	10,696	919	11,615	3,650	3,006	6,656	4,959
1992-93	13,082	1,012	14,094	10,102	880	10,982	4,788	3,961	8,749	2,233
1993-94	11,619	2,415	14,034	10,895	886	11,781	5,352	4,199	9,551	2,230
1994-95	12,384	1,076	13,460	9,965	916	10,881	5,791	4,635	10,426	455
1995-96	10,833	1,330	12,163	9,959	1,064	11,022	7,566	5,082	12,648	-1,626
1996-97	14,209	2,933	17,141	10,893	1,086	11,979	7,070	4,870	11,940	39
1997-98	14,865	2,101	16,966	10,823	921	11,745	7,550	4,795	12,345	-600
1998-99	8,321	210	8,531	12,343	896	13,239	8,880	5,192	14,072	-833
1999-00	17,704	2,615	20,319	13,331	1,074	14,405	9,686	5,480	15,166	-761
2000-01	17,184	941	18,125	13,527	727	14,254	11,662	5,429	17,091	-2,837
2001-02	21,630	3,465	25,095	16,112	1,448	17,559	10,705	5,256	15,961	1,598
2002-03	19,915	1,230	21,145	13,898	1,839	15,737	28,976	5,390	34,366	-18,629
2003-04	14,809	2,625	17,434	15,276	2,077	17,353	27,970	3,843	31,813	-14,460
2004-05	17,785	2,976	20,761	14,630	2,453	17,083	9,568	3,259	12,827	4,256
2005-06	11,360	1,589	12,949	16,098	2,733	18,831	8,360	3,655	12,015	6,816
2006-07	28,268	3,455	31,723	16,803	2,485	19,288	8,980	4,453	13,433	5,855
2007-08	28,616	4,294	32,910	17,178	2,674	19,852	8,593	4,627	13,220	6,632
2008-09	21,753	1,194	22,947	23,687	2,786	26,473	11,067	4,829	15,896	10,577

Source: RBI (2009)

The developing world, which lacks in technology, has had to import it for modernising itself. Technology is forever changing, so nations need to develop the capacity to absorb it, otherwise they become permanently dependent on imports and manipulation by technology suppliers. Clever aid givers know this well and seldom transfer the capacity to learn and absorb technology. The West mostly ensured that there was little transfer of technology to the developing world, so it has remained dependent on it. As one US observer put it, "Technology is a house we have built. Why should we let you enter it?" The aid received from the Soviet Bloc was different — it led to

transfer of technology and helped build capabilities towards India's future development.

While low and intermediate technology have been available for purchase, high technology is restricted. Under the pretext of the dual nature of technologies that have military applications, India has been denied access to advanced technology. Capital uses technology to make profits so keeps tight control over it and shares it only if it can ensure its control so that it cannot be copied. Thus, a developing country that wishes to get advanced technology has to typically, also allow control of the firm through ownership of capital. No wonder in 1976, IBM preferred to leave India rather than dilute its equity as required under FERA. In brief, capital and advanced technology go hand in hand and capital controls have to be eased.

If a country produces a good without understanding its technology then it has to import each new generation of technology as it emerges. For instance, India has imported each generation of automobile technology; in the case of fertilisers, the nation imported the 300 tpd, 600 tpd, 900 tpd and then 1,300 tpd technology. In case of power generators it has imported the 60 Mw, 110 Mw, 220 Mw and 500 Mw technologies. These examples can be multiplied.

The exception to the rule is when a nation becomes a strategic partner of an advanced nation like, South Korea and the USA after the Korean War and the USA and China after 1972 to encircle the USSR. The USA gave massive Marshall Aid to Europe and Japan after the Second World War to help rebuild their economies to prevent Communism from spreading. In the case of South Korea, the per capita aid received by it was tens of times more than that given to India. The strategic partnership also enabled the access to technology, which was denied to others. Since 1991, India has also been trying to become a strategic partner of the USA (Chapter III, Section 6.2.1) to get access to technology (like, nuclear technology).

The change in the Chinese stance and the weakening of the Soviet economy in the mid-1970s, led the West to exert greater pressure on the developing world. Thus, what was termed aid, changed to private capital flows in the 1980s and the 1990s. After 1991, aid to India has declined and it has had to attract capital from the world markets by giving concessions. Attracting FII and FDI has been an important goal, and there has been success in this, as indicated in Table 7.4.

There have been large illegal outflows of funds in the last 60 years. Earlier, there was smuggling of goods and flight of capital through various devices. As the economy liberalised, smuggling as a percentage of the total export and import came down but the flight of capital through under–invoicing, over-invoicing and hawala seems to have gone up sharply. Thus, the country, which is very poor has been exporting capital, thereby aggravat-

ing poverty. In brief, India's BOP is strongly impacted by the black economy (Kumar, 1999).

It has been argued in theory that fair trade is far more important than capital flows, whether as aid or private capital invested in a developing country. But because of the strings attached and the high interest rates charged aid and capital flows lead to greater outflows over time. In some cases, after a while the outflows became greater than the inflows so that there have been net outflows from the developing countries. The flows on account of the black economy worsen the situation. Thus, it is argued that the developing countries have been losing capital in spite of all the talk of aid and investment into these economies. Keeping this in mind, it is suggested that the developed countries should open their markets to the developing world since this would increase employment and incomes for the poor in the latter. But this is far from being realised

Trade is not innocuous and definitely not fair. It has often been on adverse terms and led to a drain of the nation's resources. In the case of the low and intermediate technology goods, there is intense competition among the developing countries so they have to accept very low prices and have to squeeze their workers and their environment to generate profits. This has required changes in labour laws truncating workers' rights and weakening environmental protection. Both these are visible currently in the entire tribal belt of India.

Indian policy makers have had faith in FDI as a source of stable inflow of funds. It is argued that this is linked to ownership of a company and not for temporary speculative purposes. But as argued above, it has hidden costs in terms of concessions and control over technology, and so on. Flows from NRIs have been unstable. In times of crisis, they have withdrawn their funds invested in India and thereby aggravated the BOP crisis (Kumar, 1994a). They have also slowed down their remittances during such periods of crisis waiting to get a better deal later. Thus, attracting funds from abroad has been expensive, involving granting concessions and major policy changes. It is then not clear how useful this strategy has been, given that foreign investment of all description has not been more than a few per cent of GDP. An alternative path based on local investment and R&D could have been tried at lower resource cost and especially to the benefit of the marginalised sections (Kumar, 1994a). The elite sections wanting to globalise with the international elite to achieve western modernity did not want an indigenous path requiring them to sacrifice even if the alternative was expensive to the nation. They kept invoking the TINA (there is no alternative) scare.

5. Role of World Bank and IMF: Managing Marketisation in the World

The Bretton Woods trinity of the World Bank, the IMF and the former GATT, which since 1 January, 1995 became the WTO, has played an important role in the development of world capitalism. The IMF has acted as a central bankers' bank while the World Bank (IBRD) has been in charge of capital flows. The two have enabled advanced nations to adopt an arms length approach to the developing world. They can fulfil their economic interests through these institutions that seem to be neutral and working in the global interest since even the developing nations are a part of these institutions. India is even a member on their executive board. The advanced nations control the equity of the World Bank and the IMF and, therefore, have a dominant say in their functioning. In fact, the US controls enough of the vote to have a veto on the decisions and have its way. The presidentship of these organisations has traditionally been with the USA and Europe.

Sridhar (2008) points out that the role of the World Bank has been "as an advisory body, an intellectual research institute, and a training centre for developing country civil servant" (p. 40). He points to the influences of the World Bank on the civil servants and suggests that there are three ways it works. Regarding whose interest the Bank serves, he says, "Bank loans were often in the geopolitical and geo-strategic interest of the US . . . macroeconomic policy remained primary with poverty alleviation as a subsidiary goal." (p. 44).

It is not that the World Bank has pursued one line all through the last 66 years. Their policies have changed as the global needs of the developed countries changed. For instance, during the height of the Vietnam War in the late 1960s, poverty seemed to be the biggest threat to world capitalism. There was a fear of a domino effect sweeping through Asia. So, removal of poverty became an important goal. After China became an ally and the threat receded, the Brazilian model of open economy was pushed on to the developing world. When this model collapsed with the debt crisis in the early 1980s policies shifted to "market-friendly state intervention", which were seen to be successful in East Asia. But with the collapse of these economies during the financial crisis of 1997, these economies were characterised as "crony capitalism" and the model shifted to "free markets". These were anyway being pushed by the financial markets in the USA. With the collapse of the world economy starting 2007, this model also failed and the reputation of the World Bank globally has suffered.

Sridhar (2008) explains it this way, "In the 1960s, with the creation of a new branch of the World Bank, the IDA, the Bank turned its focus to devel-

opment . . . . Regardless of the country or the political circumstances, growth . . . was the . . . solution" (p. 41). Further, he adds, between 1961 and 1965, only 1 per cent of the lending went to the social sector. Robert McNamara changed this in 1968 (p. 42). He strengthened "the Bank's control on the way aid was used by the borrower countries . . . show countries the 'western way of doing things'. . . ." (p. 42). He made, the World Bank the largest support to population control projects (p. 43). In the 1980s this changed with the global situation. McNamara was succeeded by Alden "Tom" Clausen, who argued "The World Bank will remain a bank. It is not a Robin Hood" (p. 45).

The changes in policies were also linked to the changes in the global role of the Soviets and the Chinese. The advanced nations realised that the developing countries did not have the option to turn towards the Soviets and could be pressured to fall in line. So, starting in the 1980s, country after country in Africa, Latin America and Asia faced economic crisis and they had to align themselves with the global interest of finance capital. A Washington Consensus emerged in the late 1980s and that ruled till the late 1990s. The conditionalities imposed on the developing world from the early 1980s onward jelled into this consensus. It was not as if it had been pre-planned but it emerged over time as the preferred policy interest of the advanced counties and was formally crystallised (*see*, Williamson, 2004). This led to the "one size fits all" framework irrespective of country specific needs, the differences in the social and political conditions and the differences in the nature of the economic crisis. The solution to every problem is "marketisation".

The critical aspect of the Washington Consensus and the conditionalities imposed by the World Bank and the IMF were opening up and marketisation of the economy. This was irrespective of whether the country in question was ready for it. No wonder the uncritical implementation of such policies led to deep problems in the national economies as succinctly put by the South Commission in 1988 (*see* quote in Chapter III, Section 6.1). Due to the problems, the rates of growth plummeted in these countries so that the decade of the 1980s has been characterised as the "lost decade" for Africa and Latin America (Cornia, *et al.* 1987). As the situation deteriorated in a country, a "safety net" was proposed to prevent more people from sliding into poverty. This was an indirect admission that the policies enforced led to severe problems. It was implicitly accepted that these policies aggravated inequality but this was sought to be justified on the grounds that later things would improve. It is clear that the safety net was a mere palliative because at no point was it considered that the basic policies that were leading to the problems be changed.

India has had to accept conditionalities several times, like in 1980 and 1991. While the changes in 1980 were not extensive and faced considerable

opposition in the country, the changes in 1991 were extensive as the policy paradigm itself changed (*see* Chapter III) leading to a deep impact on the Indian economy (see Kelly and D'Souza, 2010). These policy changes were based on the country reports prepared in advance by the World Bank in 1989.

There is a neat division of the complementary roles played by the World Bank and the IMF. The former proposes the long-run structural adjustment of the economy while the latter suggests the short- and medium-run stabilisation package of fiscal policies. When the conditionalities are agreed to then the country in trouble gets assistance / adjustment from these institutions and that signals to the international finance capital to restart lending to the country. So, the IMF and the World Bank loans have a multiplier effect. A seemingly bankrupt country again becomes credit worthy and bankable.

The entire package is referred to as Structural Adjustment Policies (SAP). As the name suggests, the economy and its sectors have to be adjusted to be compliant with the global economic structures. The implication is that the economy was in trouble because its structure was not in keeping with the needs of the global markets. That is why the implementation of SAP requires that the economy be outward-oriented and not focus on the national market as was the case with the Indian economy up to 1991.

The World Bank proceeds sector by sector (energy, finance, urban and so on), and recommends their marketisation. To encourage this transition to the new shape of the sectors, it offers Structural Adjustment Loans (SAL) as an inducement. The IMF recommends the devaluation of the currency to get BOP in balance and control of the fiscal deficit to check inflation. It suggests conservative fiscal policies with concessions in taxes to capital and cuts in expenditure, like subsidies and social sectors. The two institutions set up cross-conditionalities so that a nation in BOP trouble has to go to both the institutions and accept their conditions. Further, the World Bank and the IMF set up country offices to monitor the fulfilment of targets by the country receiving the aid. Data not available to the public is made available to these institutions.

Decision making powers about the conditionalities to be imposed rest with the Board of these institutions where each of the major countries studies them and recommends what suits them most. This reflects the undemocratic character of these institutions. The interests of the local population are not the guiding factor in the conditionalities imposed. Instead, it is capital that calls the shots. The policies imposed are cleverly clothed in the garb of making the client state credit worthy and prudent.

These institutions have a strong internal lobby amongst the ruling elite pushing for their framework. As discussed in Chapter III, in India the process of building these lobbies began during the Emergency so that by 1991 the political class, intellectuals, bureaucracy and others were ready to welcome the NEP. Consumerism is pushed to appease the vocal middle class

and to dangle a lollypop before the lower classes. Finally, these institutions and others like them (say, ADB) have been the instruments of pushing marketisation into the developing countries and the instruments of deepening the control of international finance capital.

6. GATT / WTO and Impact on the Indian Economy

The third Bretton Woods institution, GATT, was set up to govern trade in industrial goods. The West was not happy with this limitation and had been pushing for the opening up of the other markets also. The pressure for the wider opening up mounted in the early 1980s as the West became confident that the Soviets were no more a challenge to their global hegemony. They mounted pressure on the developing countries to open trade in agriculture, services and intellectual property and allow free movement of capital. GATT and the WTO unlike, the IMF and the World Bank are more democratic because each nation has one vote. However, the smaller nations are manipulated by the advanced nations to get their votes (Kumar, 2000).

In the Uruguay round of negotiations in 1986, the new issues were introduced: Trade in Agriculture, Trade in Services, Trade in Intellectual Property Rights (TRIPS) and Trade in Investment Measures (TRIMS). In addition it was proposed to set up a dispute settlement mechanism and a punishment mechanism, which could enable an injured party to retaliate in an area of its choice. For example, if a nation was aggrieved that its services were not getting access in a developing country, it could retaliate in, say, agriculture, which would hurt the latter severely.

TRIMS are designed to open up the flow of foreign capital (from MNCs) into the developing countries that do not have capital account convertibilty and where permissions were needed by MNCs to invest. Of course, this has already been largely achieved by making the developing nations compete to get capital. Developing countries are now vying with each other to attract capital (see above). Under TRIMS, countries have to give national treatment to foreign capital, that is, treat it no differently from local capital.

Under TRIPS, patents act had to be changed to allow for product patents to replace process patents (a long standing demand of the pharmaceutical MNCs). Trade marks and intellectual property rights (like, copyrights) have had to be given protection. Like, in the case of software and film & audio videos where piracy has been rampant. The software and entertainment industries have had obvious interest in this. That much of Europe's development took place when such intellectual property rights did not exist in international trade is ignored. Ideas were freely borrowed and transferred. The developing world is in a position similar to what the advanced countries were 150 years back when they hardly worried about these property rights

but now it has to face these protective measures. This, in spite of their backwardness being a direct result of the disruption caused by the colonial powers, the present day developed world. The attempt has been to pry open the markets of the developing world. What was lost by the colonial masters when these countries gained independence is sought to be regained through the WTO provisions.

In India, the launch of the NEP led to the granting of concessions even before the WTO was launched. Under the conditionalities imposed by the IMF and the World Bank the provisions of the WTO had already started taking shape in the name of liberalisation (Kumar, 1994a). For instance, quantitative restrictions were diluted and tariffs were brought down sharply. Foreign capital started getting concessions, like in the case of Enron, even though TRIMS had not yet come on the agenda. Dividend balancing and Phased Manufacturing Programme (PMP) were eliminated even though the WTO agreement was not even inked. Dilution of FERA was announced. Reservations for small scale sector started getting diluted from the word go.

The WTO is supposed to promote trade and benefit nations through the promotion of comparative advantage. So, tariff levels are required to be brought down and where quantitative restrictions existed (like, items banned from import) these were to be replaced by tariffs (tarrification). As Table 7.12 shows, world over, export-to-GDP ratio has gone up. However, this is beneficial only for those countries that are strong enough to push their exports, like China, whose exports have gone up from 10 per cent to about 41 per cent. Under the WTO, all policies that distort trade are supposed to be given up. In this category falls subsidies, procurement and distribution policies. As discussed in Chapter V, subsidies are a result of the fiscal policy regime and hence dependent on other policies, but this is of no concern to the WTO.

Table 7.12

Export to GDP Ratio for Select Countries in 2007

Country / Territory	*Merchandise Exports (million US$)*	*Commercial services exports (million US$)*	*Total Exports (million US$)*	*GDP (million current US$, 2007)*	*Export / GDP ratio*
European Union (27)	16,97,746	6,67,163	23,64,908	1,45,46,541	16.26
Germany	13,26,411	2,05,786	15,32,196	32,97,233	46.47
China	12,17,776	1,21,655	13,39,431	32,80,053	40.83
United Kingdom	4,37,807	2,73,002	7,10,809	27,27,806	26.06
India	1,45,325	89,746	2,35,071	11,70,968	20.07
Japan	7,12,769	1,27,060	8,39,829	43,76,705	19.19
United States	11,62,479	4,56,363	16,18,842	1,38,11,200	11.72

(Source: World Development Report.)

Large parts of Indian agriculture are now open. The advanced countries cleverly managed to keep the subsidies they give to their crops since they were categorised as non-distorting (and put in the Green Box of permitted subsidies). They got most of the subsidies given by the developing world removed, terming these as trade distorting (and put them in the Red and Amber Boxes), thereby adversely affecting Indian agriculturists. Since in the West, a small per cent of the population works in agriculture, the rest of society can subsidise them substantially. But in the developing world a substantial per cent of the population depends on agriculture (currently about 50 per cent of the work force in India) and giving them a substantial subsidy is out of question. Hence, the opening up of agriculture has made the life of a majority of Indian farmers difficult. Similarly, the opening up has created difficulties for the small scale sector units, which have had to face competition from cheap Chinese imports. Thus, the WTO policies are seen to be anti-poor.

Opening up of the services sector is also creating problems, like in the education sector (*see* Chapter XI) and retail trade. It is adversely impacting generation of indigenous R&D. In an open economy, developing economies cannot easily catch up with the developed world since they have to jump several stages of technology at once. As discussed in Chapter XI while there are advantages of a late start, there are disadvantages due to the lack of an R&D infrastructure and the huge required scale of investment to overcome backwardness. Such investment is both risky and huge, which the poor countries cannot afford and, therefore, they get frozen into backwardness. The change in the patent regime is expected to create problems for Indian pharmaceutical companies in the long-run. Indian companies are selling out to the MNCs anticipating the build-up of the difficulties. Due to possibilities of cross retaliation under the WTO regime, it is difficult to protect critical areas of the economy in spite of the available exceptions / provisions, like on grounds of livelihood and poverty, among others.

The creation of WTO was mired in controversy. The draft agreement emerging from the Uruguay round of negotiations called Dunkel Draft (named after Mr. Arthur Dunkel, the then Director General of GATT) prepared for negotiations and discussions was ready in 1990. It contained the position of the advanced countries as the main text and the positions of the developing countries in square brackets. In the final text that was signed in April 1994, the square brackets disappeared. The developing countries were told to "take it or leave it". The option before them was to be coerced either multilaterally inside the WTO or quit it and be bilaterally coerced in negotiations with individual advanced countries. There is no option but to trade with the advanced countries, since no alternative exists. The developing world understood that bilateral coercion would be worse, so preferred to stay in the

WTO by signing it. All nations signed up and later the Chinese and the former Soviet Bloc countries also joined the WTO.

Theoretically, since the world is second best, when markets fail, according to neo-liberal philosophy (not Marxist ideology), all markets need to be taken over by the government (*see* Tresch, 1981). There is no case for free markets, which is only valid under first best conditions, a hypothetical situation. Thus, the recommendation that markets be freed to achieve "efficiency" is not valid in a real life situation where all taxes are distorting and markets break down.

In the second best situation, unilaterally opening one's market to the world is an invitation for flooding the economy with foreign goods and services. The game at WTO is about getting others to open up their markets with the least opening up of one's own market. That is why subsidies in agriculture are sought to be eliminated for the weak nations. Now, the advanced nations use non-tariff barriers, like phyto-sanitary conditions, labour conditions and so on to stop developing countries goods from entering their markets.

Importantly, there are cross-conditionalities between the WTO, the World Bank and the IMF. If a country has to be certified to have BOP difficulties, to get an exemption from the WTO provisions, it has to approach the IMF. However, the IMF's advice under the circumstances is that the economy is not open enough and that is why there are problems so the economy should be more open. Hence, IMF recommends opening up, as in the case of India in 1991, when there is a BOP problem. Thus, WTO exemptions which seem apt for a developing country facing BOP pressures become infructuous as per the IMF requirements.

Various issues have been taken up under GATT earlier and WTO now, under what are called Rounds of negotiations. Of these, the Uruguay Round in 1986 has been the most famous. The ill-effects of WTO, its elitist and undemocratic characteristics have become increasingly evident so that for the first time in the Seattle Round of negotiations in 1999, anti-globalisers got together and protested in a big way. This also marked the beginning of the forging of unity amongst the developing countries, which had earlier been broken in 1987 by the advanced nations. This Round failed due to the lack of agreement amongst the major countries called the "quad" (*see* Kumar, 2000). Since 1999, all the Rounds and other meetings of the advanced countries have faced protests from anti-globalisers. A group of developing countries, headed by China, India and Brazil has emerged as a G20, which is propagating the common interest of the developing world. The developed world, which was used to getting its way has had to face effective opposition to its policies for the first time.

In brief, the provisions of the WTO, in the name of "efficiency" and "competitive advantage", in spite of rise in exports and imports of nations,

effectively marketise the economies and tend to lock the developing world permanently into a low-technology regime and yield benefits to the advanced nations and its allies. Recently, with the emergence of the G20 of the developing countries, the advanced nations are facing effective opposition to their designs.

7. Conclusion

It is argued that India's exports and imports depend not just on economic factors but also on the broader structures of the economy, international relations and the international perspective of the leadership, which impact the wider policy changes in the economy and not just the trade policies. Thus, the global interests of the USA and Soviet Union have impacted India's trade policies and trade. The decline of the Soviet Union and the U-turn in Chinese policies impacted the policy framework in India. This chapter argues that the Indian ruling elite's lack of an independent framework has had an impact on its trade and BOP. Consequently, India has had a trade and current account deficit for most of the period since independence and it has been buffeted by instability, leading to change in policies — "import substitution" to "export orientation". Switching between the two polar opposites requires revamping the entire economy — changing the fiscal policy regime, the trade and industrial policies, labour laws and above all it impacts the democracy itself.

It is pointed out that the BOP crisis of 1991 was linked to the growing energy intensity of the economy and the oil price rise, the black money operations of Indian businessmen and the collapse of the Soviet Union. In 1991, India had foreign exchange reserves worth only three weeks of imports and hence, exported gold to get relief. In the changed policy regime, after 1991, foreign exchange reserves have risen to record levels based on massive capital flows, some of which are hot money flows. But this has come at a cost to the marginalised sections.

Opening up changes the priorities of the economy and makes policies market-determined so that they are even less in tune with the needs of the marginalised sections that lack purchasing power and, therefore, the capacity to affect the markets. Their marginalisation only increases. Such policies cater to the needs of the well-off who have the purchasing power. Thus, even if the rate of growth of the economy goes up, it may not help the vast majority of the people. Trade polices can only be successful if other economic policies are complementary to them, so even internal policies have had to be market-determined. Hence, with the NEP and later with the creation of the WTO, the Indian policy makers' stance about internal policies also had to change. This is the meaning of the external orientation of policies — the needs of the majority are marginalised.

The categorisation of exports and imports has changed since independence reflecting the changing composition of India's exports and imports. These in turn mirror: (a) the changing structure of the Indian economy, (b) the changing division of labour in the world economy, (c) the technological changes sweeping the globe, and (d) the environmental considerations of the advanced nations.

However, no discussion of trade can be complete without taking into account the black economy, which results in smuggling and under- and over-invoicing of exports and imports, thereby falsifying data. Thus, the published data does not reflect the true trade and current account deficits or the actual BOP position. For much of the post-independence period, a country that is short of capital has been exporting capital through flight of capital. Large sums of capital are lying in tax havens like, Switzerland. So, the drain of capital has not stopped with the end of colonial rule.

Today, the single largest item of import is energy, reflecting the rising energy intensity of the economy and its inability to find adequate internal sources to fulfil this demand. This reflects the choice of the development path based on copying western modernity. The importance of India's trade with different regions has undergone dramatic shifts reflecting the global changes. The rise of China as the most important trade partner and the displacement of the USA from its number one position in the last 20 years is a significant change. India's ability to affect global trade has remained limited to a few areas, like software and IT-related services. Mostly, it has had to adjust to the ongoing global changes.

The massive opening up of the economy since 1991 has not led to any major export stimulus as yet (unlike China). Since export stimulus is uncertain and involves concessions to foreign capital, import substitution seems better suited provided a technology policy goes along with it. In brief, there are many negatives associated with opening up. Some argue that if opening up can work for other countries, like China and the South East Asian economies, then why not India? As argued in Chapter V, Section 1.3.1, while one can learn from another country it does not follow that one can blindly copy from another.

It is argued that the most recent phase of one-way globalisation starting 1991 is based on marketisation of social processes. Marketisation depends on the notions of "consumer sovereignty" and "efficiency". The former is dictated by psychological factors outside the control of individuals and pushed by powerful commercial interests, thereby invalidating the concept of "sovereignty" in the case of the modern "consumer". Other principles on which markets function are "dollar vote" and "more is better". The former runs counter to the democratic principle of "one person one vote" and weakens democracy as it takes hold. They result in the "marginalisation of the marginal" and "con-

sumerism". Marketisation has also led to the notion of "homo-economicus" getting entrenched in society's thinking — only economics matters to the exclusion of social and political considerations. This is resulting in the atomisation of the individual and the fuelling of the growth of the black economy, which further encourages atomisation (a vicious cycle).

The idea that the spread of the markets strengthens democracy (as seen in the case of developed countries) is critiqued. It is argued that this happened in the advanced countries in a certain conjuncture when the markets were still weak. As is their wont, they weaken any existing social order and in the early stages of capitalism helped in the decline of the prevailing feudal order. The spread of democracy in these countries was a result of the strong social movements, which emerged there. The markets were in their nascent stage and were not able to weaken the movements. So, it is coincidental that markets and democracy emerged at the same time but it is not that the former is the cause of the latter.

It is argued that one-way globalisation tends to further weaken the already weak nation state in the developing world. An impression has gained ground that the world has become one village and the importance of the nation state has declined but this is not the case with either the developed countries or China or S. Korea. The selective weakening of the state in the developing world has enabled the developed world and their MNCs to dominate these nations.

The Bretton Woods trinity of the World Bank, the IMF and the former GATT which is now WTO has played an important role in the development of global capitalism and the current phase of globalisation. They have enabled the advanced nations to have an arms length approach to the developing world by enabling them to achieve their goals through institutions that seem to be neutral and working in the global interest. It is not that these institutions have had one fixed understanding of how to promote the interest of international finance capital; they have shown tremendous flexibility as the global needs of the developed countries have changed. Their policy prescriptions have changed from time to time, like promoting poverty removal in the 1960s and free markets in the late 1990s. A Washington Consensus emerged in the late 1980s, which ruled till the global crisis suddenly erupted in 2007. It is this flexibility of global capitalism that has helped it to face crisis after crisis and flourish.

The critical aspect of the Washington consensus was the opening up of the economies of countries — whether they were ready for it or not — which led to problems in the developing countries. The drain of the surplus of the developing countries that took place when they were colonies took a different form via aid, trade and capital flight via the tax havens. The provisions of the WTO, in the name of efficiency, will effectively tend to lock the

developing world permanently into a low-technology regime and yield benefits to the advanced nations.

With opening up, attracting funds from abroad has become expensive due to the indirect costs of granting concessions and changes in policies. It is not then clear how useful this strategy has been for the developing world and whether an alternative path could have been tried at lower cost and especially to the marginalised sections.

It emerges from this chapter that India not having developed an independent path could not withstand the pressures from the West once an alternative to capitalism collapsed. The Indian capitalist class was not unhappy at this change due to its own contradiction between its natural inclination towards capitalism of the West and the strategic alliance it had to forge with the Soviet Bloc because of geo-political reasons and due to its lack of a wider long-term perspective.

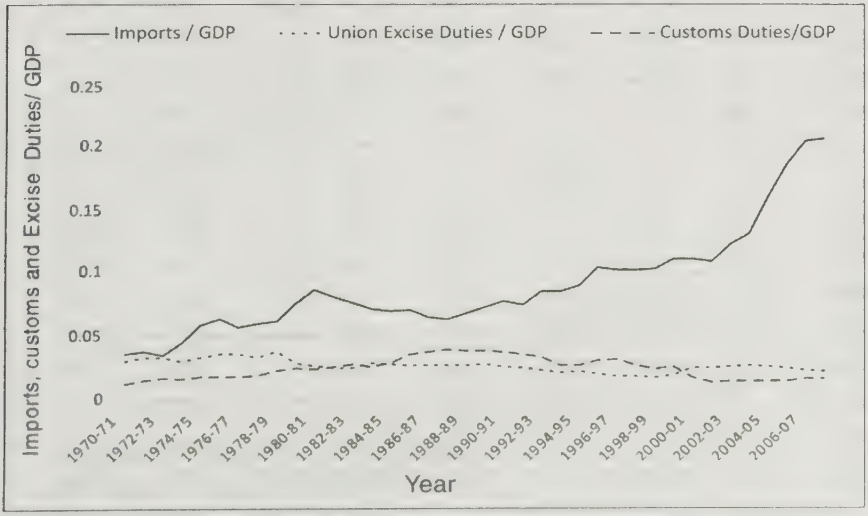
It needs to be clarified that it is not globalisation *per se* that is at the root of the problems faced by the nation and its marginalised but it is the kind of globalisation India is subject to, namely one-way. Similarly, the criticism here is not about the existence of markets but the process of indiscriminate marketisation that society is subject to.

Additional Data

Given below are Graph 7.2 showing imports, customs and excise duties 1970-71- 2007-08 and Table 7.13 showing India's foreign trade in rupees.

Graph 7.2

Imports, Customs and Excise Duties 1970-71- 2007-08



(Source: GOI (2009c) and Economic Survey.)

Table 7.13

India's Foreign Trade — Rupees

(Rupees crore)

Year	Exports			Imports			Trade Balance		
	Oil	*Non-oil*	*Total*	*Oil*	*Non-oil*	*Total*	*Oil*	*Non-oil*	*Total*
1	2	3	4	5	6	7	8	9	10
1970-71	9	1,527	1,535	136	1,498	1,634	-127	28	-99
1971-72	11	1,598	1,608	194	1,630	1,825	-184	-33	-216
1972-73	29	1,943	1,972	204	1,663	1,867	-175	279	104
1973-74	12	2,511	2,523	560	2,395	2,955	-548	116	-432
1974-75	14	3,315	3,329	1,157	3,362	4,519	-1,143	-47	-1,190
1975-76	19	4,017	4,036	1,226	4,039	5,265	-1,207	-22	-1,229
1976-77	19	5,124	5,143	1,413	3,660	5,074	-1,395	1,464	69
1977-78	16	5,392	5,408	1,551	4,469	6,020	-1,535	923	-612
1978-79	14	5,712	5,726	1,677	5,134	6,811	-1,663	578	-1,085
1979-80	19	6,400	6,418	3,267	5,876	9,143	-3,248	524	-2,724
1980-81	25	6,686	6,711	5,264	7,286	12,549	-5,239	-600	-5,838
1981-82	221	7,585	7,806	5,189	8,418	13,608	-4,968	-833	-5,802
1982-83	1,235	7,568	8,803	5,622	8,671	14,293	-4,387	-1,103	-5,489
1983-84	1,588	8,183	9,771	4,832	11,000	15,832	-3,244	-2,817	-6,061
1984-85	1,818	9,926	11,744	5,409	11,725	17,134	-3,591	-1,800	-5,391
1985-86	645	10,250	10,895	4,989	14,668	19,658	-4,345	-4,418	-8,763
1986-87	411	12,041	12,452	2,811	17,285	20,096	-2,399	-5,245	-7,644
1987-88	649	15,025	15,674	4,043	18,201	22,244	-3,394	-3,176	-6,570
1988-89	505	19,727	20,232	4,358	23,878	28,235	-3,853	-4,151	-8,004
1989-90	697	26,962	27,658	6,273	29,056	35,328	-5,576	-2,094	-7,670
1990-91	938	31,620	32,558	10,816	32,377	43,193	-9,878	-757	-10,635
1991-92	1,022	43,020	44,042	13,127	34,724	47,851	-12,105	8,295	-3,809
1992-93	1,379	52,309	53,688	17,142	46,233	63,375	-15,763	6,076	-9,686
1993-94	1,248	68,504	69,751	18,046	55,055	73,101	-16,798	13,449	-3,350
1994-95	1,309	81,365	82,674	18,613	71,358	89,971	-17,304	10,007	-7,297
1995-96	1,518	1,04,836	1,06,353	25,174	97,505	1,22,678	-23,656	7,331	-16,325
1996-97	1,710	1,17,107	1,18,817	35,629	1,03,291	1,38,920	-33,918	13,816	-20,103
1997-98	1,311	1,28,790	1,30,101	30,341	1,23,835	1,54,176	-29,030	4,955	-24,076
1998-99	376	1,39,377	1,39,753	26,919	1,51,413	1,78,332	-26,543	-12,036	-38,579
1999-00	169	1,59,393	1,59,561	54,649	1,60,588	2,15,237	-54,480	-1,195	-55,675
2000-01	8,542	1,95,029	2,03,571	71,497	1,59,376	2,30,873	-62,955	35,653	-27,302

(Contd. . .)

Table 7.13 *(. . .contd)*

Year	*Exports*			*Imports*			*Trade Balance*		
	Oil	*Non-oil*	*Total*	*Oil*	*Non-oil*	*Total*	*Oil*	*Non-oil*	*Total*
2001-02	10,107	1,98,911	2,09,018	66,770	1,78,430	2,45,200	-56,663	20,482	-36,182
2002-03	12,469	2,42,668	2,55,137	85,367	2,11,839	2,97,206	-72,898	30,829	-42,069
2003-04	16,397	2,76,969	2,93,367	94,520	2,64,588	3,59,108	-78,123	12,382	-65,741
2004-05	31,404	3,43,935	3,75,340	1,34,094	3,66,971	5,01,065	-1,02,690	-23,035	-1,25,725
2005-06	51,533	4,04,885	4,56,418	1,94,640	4,65,769	6,60,409	-1,43,107	-60,884	-2,03,991
2006-07 R	84,520	4,87,259	5,71,779	2,58,572	5,81,935	8,40,506	-1,74,052	-94,675	-2,68,727
2007-08 P	1,00,125	5,40,047	6,40,172	3,20,641	6,44,208	9,64,850	-2,20,516	-1,04,161	-3,24,678

(Source: RBI (2009) and Directorate General of Commercial Intelligence and Statistics.)

P: Provisional, R: Revised.

Chapter VIII

The All Pervasive Black Economy*

1. Introduction

The black economy impinges on every aspect of the citizen's life and is critical for any analysis of the nation's economic life. Yet, it is systematically ignored by social scientists. Citizens are experts on the black economy and narrate all kinds of incidents and experiences about it. But it is all anecdotal, missing out on the larger picture and understanding. The citizens have come to believe that this phenomenon is another aspect of their lives about which nothing can be done, and so have learnt to live with it. Some, of course, argue that if this part of the economy is accepted as normal by the citizens then it should not be treated as an aberration and nothing much needs to be done about it. However, this is like saying that if a majority of the drivers do not observe traffic rules, then this should be accepted as normal and nothing needs to be done. This is clearly an unacceptable position since it has negative consequences. This chapter argues that the black economy is the most critical problem confronting India and its citizens over the last few decades and if it is not tackled then other critical problems will remain unresolved (Kumar, 1999).

The black economy does not exist only in name. It has real effects; it prevents the Indian economy from attaining its full potential and loses about 5 per cent in growth annually (Kumar, 2005b). The nation also loses by way of flight of capital, apparently making capital scarce. Black economy also affects all the major macro variables whether it is investments, savings, balance of payments (BOP), inflation, budget deficit, and so on. It results in policy failure at the macro or the micro levels so that the nation is unable to achieve its growth target. Its very existence acts as a hurdle to achieving the goals set for planning, monetary policy, education policy and health policy. It affects not only the economic aspects of the nation's life but also its political and sociological aspects. It impinges in a central way on the functioning of the political parties, elections, representation in the legislatures, work

* Certain sections of this chapter depend substantially on the author's article, "The Black Economy: Undermining the Idea of the Nation", in Verghese (2006).

ethic, criminalisation in society, attitudes towards others in society, alienation and so on. It affects India's ranking in the world (Table 1.2 shows India's low ranking in the world with regard to the socio economic indicators) and gives the impression of India being a soft state which cannot deliver on policies and which other governments feel they can take advantage of by manipulating its policies.

In a central way, societal disruption persists from the colonial period to the post-independence period and has been aggravated by the existence of a large and growing black economy. Many Indians who want to return to India do not do so due to the harsh living conditions in the country, and red tapism resulting from the all-pervasive black economy which has severely dented governance. It accelerates the atomisation of the individual so that the process predates the impact of marketisation which formally began in 1991. Many elite Indians stopped identifying with the idea of India and initiated their headlong rush to link up with the global elite much before 1991. The idea that India should be politically free since that would be better, even if its leaders make a mess of it, has been carried to an extreme because of the elites' disrupted consciousness and the helplessness of the rest, aggravated by the ubiquitous black economy.

2. India's Economic Position in the World

Many concerned Indians despair that India is one of the poorest countries in the world even though individual Indians, especially those abroad, excel in almost every field of human endeavour. Everything that can go wrong does so in India although the way to tackle these ills is well known. Everyone seems to have washed their hands off issues. People routinely die in fires caused by faulty electrical wiring. Cholera and typhoid are no surprise since drinking water supply is unsafe. At one of the lowest levels of consumption per capita India has one of the highest levels of air and water pollution (*see* Chapter X). In spite of the best efforts of individuals things go wrong.

In the last decade, many a prime minister, chief ministers, ministers or their close relatives have been accused of corruption. Ms. Mayawati, Mr. Mulayam Singh, Mr. Amarinder Singh, Mr. Madhu Koda, Mr. Badal and Ms. Jayalalitha are a few of them. Members of the elite President's guards, doctors in private clinics, Godmen, judges, VCs, bureaucrats, police officers, journalists and film producers, among others have all hit headlines for all the wrong reasons. These people are the elite sections of society, so that the implications of such widespread illegality are serious.

Petrol pump allotments, admissions to professional courses, procurement of defence materials, allotment of licences and disinvestment of shares of

public sector companies have come under the scanner. While there have been few prosecutions in cases of graft, the public impression of the system is that of a corruption-ridden one. What is being revealed by official agencies or the media with relentless regularity is only the tip of the iceberg. In their daily dealings with say, the police, telephone, electricity, petrol pumps and hospitals, the common man faces constant harassment. This phenomenon pervades both the public and the private sectors.

In India, "the obvious does not happen". In seminars and reports no one argues that India should have full literacy / compulsory education for all children, good health for all, full employment or eliminate poverty. These goals have not been achieved 63 years after Independence. The political will to put enough resources into achieving these goals has been lacking. But there is an even more important reason, namely the existence of a growing and large black economy.

3. The Size of the Black Economy

Can one ignore the black economy in India and hope to come out right? In 1995-96, the black economy had reached 40 per cent of the GDP and indications are that it has now grown to around 50 per cent of the GDP. Pointers to this growth are:

(a) the increasing number of scams (Tables 8.1, 8.2 and 8.3 give a list of scams for 2005-08),
(b) the rise in the share of the services sector (Graph 3.2) where black incomes are concentrated, and
(c) the decline in the share of agriculture where the black income generation is negligible. But assuming it to be the same (in percentage terms) as in 1995-96, it would amount to ₹ 24 lakh crore annually in 2009-10.

Table 8.1

Scams in 2005

Estimated

S. No.	*Date*	*Source*	*Case in Brief*	*Amt. (₹ Cr)*
1.	6/2/2005	TOI	Flood Scam in Patna; Jha and Goswami, Bihar DM	17
2.	6/2/2005	TOI	Fake Cos make money thru multi-level marketing on net	106
3.	6/2/2005	TOI	NGO scam : Literacy Mission in Bihar	3
4.	6/9/2005	TOI	IT officer ; false IT refund orders	4
5.	6/9/2005	TOI	Franking scam; Postal Department	30

(Contd. . .)

Table 8.1 *(. . . contd)*

S. No.	Date	Source	Case in Brief	Amt. (₹ Cr)
6.	7/2/2005	TOI	Disproportionate asset; Rathi ACP Crime Br	1
7.	7/19/2005	TOI	Kolkata Municipal Corportn; Tax scandal	8
8.	7/21/2005	TOI	Unaccounted fixed deposits in 35 educational institutes	100
9.	7/23/2005	TOI	Maha Telgi stamp paper scam	2,900
10.	7/282005	TOI	Centaur Case, Bhattacharya, son-in law of Vajpayee involved	32
11.	8/3/2005	TOI	Cooperative Group Housing Societies scam	4,000
12.	8/9/2005	TOI	Ghazipur abattoir scam	45
13.	8/9/2005	TOI	Delhi College of Engg admission scam	1
14.	8/9/2005	TOI	Book piracy in Delhi	30
15.	8/9/2005	TOI	Tax (VAT) evasion by PSU and petroleum dealer	10
16.	8/11/2005	TOI	Tax evasion; IT, Bank officials and six others caught by CBI	2
17.	8/12/2005	TOI	Greater NOIDA land scam; by Goyal and 90 other land sharks	600
18.	8/18/2005	TOI	Uniform scam in MCD	17
19.	9/7/2005	TOI	Investment scam; by unscrupulous tradesmen — unearthed by EOW	30
20.	9/15/2005	TOI	Sub-contract scam by BHEL to BSES	53
21.	9/15/2005	TOI	Degree scam — study centres offered 49,000 fake degrees	100
22.	9/24/2005	TOI	Teachers job scam in Haryana; Chautala, son involved	10
23.	9/26/2005	TOI	Scamstar imported cars through Dubai by Bhandari and others	40
24.	9/26/2005	TOI	Fake stamp racket in Delhi court	1
25.	10/1/2005	TOI	39 DA cases on large number of CBI raids in Delhi and other cities	15
26.	10/1/2005	TOI	Faridabad industrial land scam, DIG's wife and others booked	20
27.	10/2/2005	TOI	Bhat, Raj, Sharma and other officials booked for DA scam	15
28.	10/2/2005	TOI	BSNL up there on CBI's tainted list booked 15 officers	2
29.	10/3/2005	TOI	Punjab Govt job; IAS officer and ex-minister involved in recruitment scam	20

(Contd. . .)

Table 8.1 *(. . . contd)*

S. No.	Date	Source	Case in Brief	Amt. (₹ Cr)
30.	10/5/2005	TOI	IT official, Aggarwal arrested for DA scam	10
31.	10/5/2005	TOI	DA scam of Top IT official, Meena	10
32.	10/6/2005	TOI	Six major institutions involved in admission scam in Pune	50
33.	10/7/2005	TOI	Govt. job racket scam in Delhi, forged letters of PS of ministers	10
34.	10/10/2005	TOI	Imported car scam in Delhi	6
35.	10/30/2005	TOI	OFFP scam: Natwar Singh, Indian Corporates involved	100
36.	11/5/2005	TOI	Car import scam; DGFT officials are in dock	10
37.	11/19/2005	TOI	EOW busted book piracy racket in Delhi	1
38.	11/23/2005	TOI	Health scam — supply of sub-standard laproscopes in Dehli Hospital	7
39.	11/24/2005	TOI	Poultry scam rocks Army	10
40.	11/24/2005	TOI	BPL kerosene scam; diverted to adulterate diesel	10,000
41.	12/3/2005	TOI	CBI probes for procurement scam of ammo. from Italian Co.	166
42.	12/3/2005	TOI	Postal drug cartel scam ; Customs unearth	50
43.	12/15/2005	TOI	Cash for query scam ; 11 MPs received cash for query	1
44.	12/16/2005	TOI	IPO scam of Yes Bank ; SEBI unearths irregularities	100
45.	12/20/2005	TOI	Duty avoidance scam from imported liquor	20
46.	12/20/2005	TOI	Mulayam amassed huge money as DA	500
47.	12/20/2005	TOI	Ruia — trader evaded duty and got illegal exports benefit	125
48.	12/20/2005	TOI	CBI books 10 persons for 173 fake pension scam in Delhi	1
49.	12/21/2005	TOI	MPLADS scam, seen as a flourishing fount of corruption	50
50.	12/21/2005	TOI	338 MCD officials charged for allowing illegal construction	5
51.	12/30/2005	TOI	Power theft scam ; BRPL and Police unearth by raids	2
52.	12/30/2005	TOI	Bihar Govt. job racket ; BPSC chairman and 8 others held	20

(Source: Times of India (TOI), Relevant dates.)

Table 8.2

Scams in 2006

S. No.	Date	Source	Case in Brief	Estimated Amt. (₹ Cr)
1.	1/3/2006	TOI	Telecom scam — Mahajan favoured RIC illegally — loss to Govt	1,100
2.	1/10/2006	TOI	EOW arrested top executive of a private company for bank fraud	27
3.	1/10/2006	TOI	Rice scam — purchasing of poor quality rice, 50 FCI officials held	320
4.	1/20/2006	TOI	NHAI scam — Engineer arrested	27
5.	1/26/2006	TOI	DTH scam — racket in satellite receiver kits purchasing	200
6.	2/5/2006	TOI	Money laundering scam — in Delhi Bank, unearthed by I-T	1,540
7.	2/6/2006	TOI	Petrol pump scam — in Punjab, Nayak, top cop involved	100
8.	2/6/2006	TOI	Bitumen purchase scam in MCD, irregularities by officials	1
9.	2/7/2006	TOI	MPLADS scam — Chawla was unfairly alloted land & money	1
10.	2/12/2006	TOI	DA scam of top physician, found by I-T deptt	10
11.	2/13/2006	TOI	I-T fraud by Gurgaon export house	8
12.	2/13/2006	TOI	Stock scam — DSQ Software MD defrauded his own firm	595
13.	2/17/2006	TOI	Liquor Barons paid UP politico bribe	150
14.	2/17/2006	TOI	Liquor scam; huge loss of Govt.	3,600
15.	3/13/2006	TOI	Purchase scam of red phosphorus ammo & sleeping bags in Kargil	76
16.	3/15/2006	TOI	Scam by Delhi Cotton Mill owner — IT found unaccounted deals	400
17.	3/15/2006	TOI	Hotel Corpn of India scam — officials booked by CBI	1
18.	3/18/2006	TOI	Housing scam — DDA flats alloted to fake Punjabi migrants	10
19.	3/18/2006	TOI	Tamiflu scam — Huge purchase of costly capsules unusually	10
20.	3/20/2006	TOI	NAFED loan scam — Guru Srivastava, ED booked	235
21.	3/22/2006	TOI	Scorpene deal scam — Govt. spent huge extra amount	700
22.	3/22/2006	TOI	VVI Jets scam — CAG slams Govt for spending extra amount	712
23.	3/22/2006	TOI	Tarapur scam — CAG pointed irregularities in BARC's plant	1
24.	3/26/2006	TOI	Drug import scam — illegal bulk import booked by DRI, evades duty	10
25.	3/27/2006	TOI	Evasion of Duty scam — Delhi tradesman booked by DRI	100

(Contd. . .)

Table 8.2 *(. . . contd)*

S. No.	Date	Source	Case in Brief	Amt. (₹ Cr)
26.	4/15/2006	TOI	DA scam of Rakesh Kumar, IFS , CBI to probe his assets	10
27.	4/26/2006	TOI	MTNL duping scam — Ram, AP chief secretary's son arrested	2
28.	4/26/2006	TOI	PDS scam — SC upset with Govt.'s handling the case.	285
29.	4/29/2006	TOI	IPO scam of Yes Bank, retail allotment of shares manipulated	100
30.	5/5/2006	TOI	DA scam — unaccounted money found in Chautala's residence	1,467
31.	6/13/2006	TOI	DA scam — of Delhi Builders — EOW found concealed money	62
32.	6/26/2006	TOI	Power theft scam — 2.75 mn units stolen in Delhi/year, DERC	1
33.	6/27/2006	TOI	Bank duping scam — executive nabbed by EOW	35
34.	7/25/2006	TOI	E-fraud; customs official duped exporters	8
35.	8/4/2006	TOI	Co-operative scam in Delhi, 8 booked	10
36.	8/5/2006	TOI	Golden Forest scam — Chandigarh finance Co.duped 20 lakhs	1,000
37.	9/9/2006	TOI	MCD recruitment scam	5
38.	9/18/2006	TOI	Enrollment scam — ghost students cost Maha huge money	725
39.	9/26/2006	TOI	RDX passage scam — 1993 serial blasts, 5 cops guilty	1
40.	9/27/2006	TOI	Donation scam — PM orders probe, over 600 parties involved	100
41.	10/1/2006	TOI	IT piracy scam — Software industry lose huge amount per year	280
42.	10/9/2006	TOI	Code theft scam — techie steals costly codes	50
43.	10/11/2006	TOI	Ganges plan scam — Huge money down the Ganges	1,000
44.	10/11/2006	TOI	Barak (Anti-Misile) deal scam, FIR against ex-Navy Chief	174
45.	10/13/2006	TOI	Black money found from Real Estate Grp by IT Deptt	64
46.	10/13/2006	TOI	Encroachment scam — Builders and officals in CBI net in Delhi	10
47.	10/16/2006	TOI	Duty evasion scam — Goyal of Disha industries involved	10
48.	10/19/2006	TOI	NHAI cheating scam — CBI charges GM & other officials	6
49.	10/23/2006	TOI	UP's land deal scam — Radisson MD & IAS officer involved	10
50.	10/29/2006	TOI	Armed forces scam — 100 personnel found links with foreign agents	50

(Contd. . .)

Table 8.2 *(. . . contd)*

S. No.	Date	Source	Case in Brief	Amt. (₹ Cr)
51.	11/3/2006	TOI	Graft scam — Indian official in UN arrested, favoured businessman	25
52.	11/8/2006	TOI	Canara Bank loan scam — in Delhi, 5 officials involved	50
53.	11/27/2006	TOI	Hawala scam — Politicians and others involved	1,000
54.	12/9/2006	TOI	Foreign fund scam — by Arms dealer booked by ED	23
55.	12/9/2006	TOI	Railway ticket scam — rocks forces, fake warrants issued	5
56.	12/25/2006	TOI	J&K Bank loan scam — charges against 9 persons	7
57.	12/26/2006	TOI	TV Transponders' lease scam — heavy loss of Govt alleges CAG	10
58.	12/26/2006	TOI	Cyclone relief scam — Orissa, funds parked by officials in banks	50

Source: Times of India, Relevant dates.

Table 8.3

Scams in 2007

Estimated

S. No.	Date	Source	Case in Brief	Amt. (₹ Cr)
1.	2/4/2007	TOI	KF Airlines ticket buying scam — through net, Police bust gang	14
2.	2/4/2007	TOI	Stamp scam — Water marks on stamp paper missing for 20 years	20
3.	2/16/2007	TOI	Disproportionate asset scam — of Kolkata IT officer booked by CBI	20
4.	3/7/2007	TOI	Badals in Punjab having huge DA	4,326
5.	3/14/2007	TOI	Almost all PDS wheat to NE is stolen; Pawar	100
6.	3/25/2007	TOI	FIR against Amarinder in graft case	100
7.	3/26/1900	TOI	Pulse scam — export firm & bank officials involved	250
8.	4/23/2007	TOI	DJB scam — more Kataria firms under lens; CEO, DJB held	3
9.	4/23/2007	TOI	Urea scam — relations of many politicians are involved	133
10.	4/27/2007	TOI	Trafficking scam — four MPs and five MLAs under lens	50
11.	5/21/2007	TOI	Recruitment scam — in AP, ex-MP held, more absconding	10

(Contd. . .)

Table 8.3 *(. . . contd)*

S. No.	Date	Source	Case in Brief	Amt. (₹ Cr)
12.	5/25/2007	TOI	Judiciary scam — Heavy bribe paid yearly to lower judiciary	2,630
13.	5/27/2007	TOI	IAS officer in the dock over NOIDA land allotment	10
14.	6/30/2007	TOI	Armyman working for ISI held in Delhi; caught with secret docs.	5
15.	8/3/2007	TOI	Land scam by Malhotra, Officials of Delhi Govt & DDA involved	10
16.	8/18/2007	TOI	Scam in sale of special Siachen gear hits Army	5
17.	8/18/2007	TOI	Molarband scam — Jain (Malhotra's) behind it, plots sold illegally	20
18.	9/4/2007	TOI	Realty scam — unearthed in Ghaziabad	500
19.	9/9/2007	TOI	Former Punjab cop (Virk) arrested for illegal wealth	100
20.	9/11/2007	TOI	Health Director of MP suspended on IT raid fall out	2
21.	9/12/2007	TOI	Egg scam — in Army — Northern Command	5
22.	9/12/2007	TOI	CBI booked Railway employees for illegal pension disbursement	1
23.	9/17/2007	TOI	Huge PDS grain stolen; 53% wheat, 39% rice diverted to market	3,1500
24.	9/26/2007	TOI	DA scam — Former UP Secretary (Singh), arrested	50
25.	9/26/2007	TOI	Manager dupes ICICI bank in Delhi	2
26.	10/11/2007	TOI	CBI seizes Disproportionate Asset from Maj General	50
27.	12/14/2007	TOI	Former IAS officer faces DA charges	14
28.	12/15/2007	TOI	CBI raids in 3 cities to probe pulse scam	8
29.	12/21/2007	TOI	DA of Karnataka Deputy Commissioner	31
30.	12/29/2007	TOI	Mobile Clinic van purchased at higher prices in MP	2
31.	12/30/2007	TOI	Savings scam — Amount vanishes from post offices	153
32.	1/26/2008	TOI	Kidney scam — over 600 victims' kidney taken away	100
33.	4/8/2008	TOI	Dope in spices, food packets	10
34	5/16/2008	TOI	Licensing officer, eight others in corruption net	5

(Source: Times of India (TOI), Relevant dates.)

Data collected by Biswas for his Paper, "Impact of Black Economy on NAS".

Taxes on these incomes at current rates (2009-10) that go uncollected amount to ₹ 12 lakh crore (40 per cent of the income evaded, including both direct and indirect taxes). Thus, the Union Budget, instead of showing a gross fiscal deficit of ₹ 4 lakh crore in 2009-10, could have shown a surplus of ₹ 8 lakh crore, so that there would have been enough funds for employment generation, education, health and infrastructure development. This is the situation in 2009-10 when the fiscal deficit was highly inflated due to the drought and the stimulus package to counter the downturn brought about by the global financial crisis. Between 2001-02 and 2007-08, the fiscal deficit was in the range of ₹ 1,20,000 crore to ₹ 1,46,000 crore. So, the surplus in the budget would have been even larger.

The size of the black economy was estimated at about 4 per cent of GDP in 1955, 7 per cent in 1970, 18 per cent in 1980 and 40 per cent in 1995 (Kumar, 1999). The estimate for 1995 consists of 8 per cent from illegal activities, like drug trafficking, organised crime and smuggling and 32 per cent from legal activities, like manufacturing, finance, trade and construction. The black economy is likely to have grown to 50 per cent of GDP by 2005-06 because of the growth of the share of the services sector and the decline of the share of agriculture in GDP. It may seem surprising that the black economy is growing in spite of the cut in tax rates and a sharp whittling down of the degree of controls and regulation in the economy since 1991. As discussed in Kumar (1999), since black income generation involves illegality and advance planning to hide incomes, the tax rate is immaterial. How can incomes that involve illegality be revealed no matter how low the tax rate? Similarly, it is pointed out that controls cannot be the cause of their own violation. Rather, it is illegality that leads to the violation of laws. Existence of society implies laws and their violations would lead to the generation of black incomes. Finally, with privatisation and reduction in regulation, businesses have got greater leeway to commit illegality without fear of checks and they are doing just that and much more easily because of the permissive pro-business environment created by the NEP.

4. The Black Economy, Illegality and Governance

An illegality occurs when a law is violated. It may either occur due to the use of force or voluntary connivance in its violation by those who are upholders of the rule of law. While the former is a case of "might is right" or the rule of the jungle, the latter involves corrupting the administration which oversees the implementation of the law of the land through monetary inducement, use of influence or political clout. In both cases, governance and societal functioning are affected adversely.

The size of the black economy is a measure of the illegality prevailing in the economy. The black economy comprises all the activities through which black incomes are generated. While the entire income generated through illegal activities (wages and profits) are black incomes, in the case of legal activities, only a part of the incomes are black (Kumar, 1999). Black incomes increase profits and incomes over and above what can be legally generated. A part of these profits are transferred as bribes or *hafta* to those in authority so that they overlook the illegality.

The black economy has grown rapidly not only in absolute amounts but also as a fraction of the known output of the economy (GDP). The figure of 50 per cent of the GDP is one of the lowest estimates available from experts in the field who have studied the black economy in India and may be considered to be conservative. Other figures from those who have little understanding of this phenomenon are also available. The government either feigns ignorance or outright denies the existence of the black economy, but favours a lower figure so that the situation may not appear to be too bad and pressure does not mount on it to act decisively. The 50 per cent estimate, for analytical reasons, leaves out transfer incomes, like capital gains in real estate and bribes since these are not linked to production. The absolute size of the black economy in 2009-10 would come to around ₹ 30 lakh crore, which can be said to be an estimate of the extent of illegality in the Indian economy. Put another way, 50 per cent of activity in society involves illegality.

Transparency International (TI) gives global rankings of the degree of corruption in various countries (TI, 2009). However, these are based on the perceptions of a select group of corporate executives whose exposure to the economy is limited, so they can only talk of a limited set of activities and compare only a limited number of countries they are exposed to (Kumar, 2005b). Thus, the results may be substantially biased. Further, most studies of the black economy do not define black incomes, hence the measures they give are not analytically correct. Often, corruption and black economy are taken to be co-terminus but the former only constitutes one aspect of the latter. Finally, many studies that make international comparisons do not take into account the major institutional differences across countries which impact the black economy. Besides using the same methodology for all the countries presents erroneous conclusions.

How can the rule of law sustain in the face of such illegality in the country? Worse, black incomes are concentrated in the hands of 3 per cent of the population. Not that the common man (peons, clerks and beat constables) does not generate small amounts of black incomes, but these would be negligible compared to the total. Illegality in businesses needs to be distinguished from that of non-businesses or that of the individuals. The latter follows in the footsteps of the former which creates the system. The individu-

als, where possible, generate an extra income or try to gain an advantage through illegality, say, in a court or by delaying or speeding up action by the police or the bureaucracy or for getting permissions or for paying lower taxes or constructing illegally. In some cases, individuals may have to commit illegality (such as, bribing) to protect themselves. They may pay a bribe out of their white incomes, thus converting it to black income. But the primary systems of committing illegality are set up by the businesses, which is then followed by others.

The 3 per cent in whose hands the black incomes are concentrated are the elite of our society and belong to the ruling elite and are able to influence the opinion makers. Illegality has become an acceptable way of life for these groups, this undermines administration and leads to failure of governance.

For illegality to be so extensive, the black economy has to be both systematic and systemic. It is a functioning system and not just incidental involving a few isolated incidents here and there. A large number of scams are getting reported in the media (Tables 8.1-8.3), but they represent only the tip of the iceberg. These tables show that every section of the ruling elite is involved whether in the public or the private sectors. On a regular basis, industry steals power and produces undeclared output, police collect *hafta*, there are cases of land grabbing, illegal construction goes on unchecked, under invoicing of exports and imports takes place, hospital waste is recycled, examination papers leaked, spurious medicines manufactured and food items adulterated. The regularity of exposes and the frequency of crime-related programmes on the popular media are indications of the widespread existence of illegality in society. These examples suggest that illegality is committed both to gain an unfair advantage and to prevent harm to one's vested interest.

Tables 8.1 to 8.3 suggest that no aspect of the citizen's lives is untouched by the black economy and no sector is clean. Since the black economy is systemic, the individual feels helpless. For instance, if most use high beam while driving, then the few who do not use it have to follow suit or pay a price. An honest Finance Minister is one who personally does not accept money but presides over a corrupt system and tolerates it even though he has all the systems to check it. An honest police officer is one who allows *hafta* to be collected by his colleagues but does not take a share of it. In other words, the honest in the system have to agree to be marginalised. While the honest become helpless and demoralised, the dishonest have become bold and daring. The latter consider discussing honesty a boring subject and vacuous moralising. In their jargon, initiative is synonymous with violating every possible rule or law to make a quick buck or get ahead.

5. Causes of Existence of Black Economy

To effectively tackle the black economy, the causes underlying its existence and growth need to be identified. In the literature, the causes of black income generation are listed as:

(a) high tax rates,
(b) violation of controls and regulations, and
(c) the political economy.

The first two constitute illegality since a law is violated. The question then is, why is there growing illegality in the country? The answer to this lies in the political economy.

Most analysts confuse the sources of generation of black income with the cause and mistakenly suggest the elimination of regulations and controls as a remedy. Since 1991, many controls have been eliminated but scams have increased exponentially and so has the size of the black economy (Kumar, 1999). Rather than usher in genuine reforms to tackle the black economy, businessmen who are at the root of the generation of black incomes are being given a more liberal environment under the NEP. The highest tax rate has come down from 97.5 per cent in 1971 to 33 per cent currently, but the black economy has grown from 7 per cent to at least 50 per cent of the GDP during this period. As argued above, the tax rates are immaterial for declaring incomes generated through illegal means.

Since the black economy represents illegality in society, it should be checked. Today, illegal activities take place systematically with the connivance of the policy makers, the politicians and the executive consisting of the bureaucracy, the police and the judiciary. The corrupt businessmen are in league with these two groups to generate black incomes. These three constitute a "Triad" that shares the spoils. The linkages amongst these three groups need to be understood.

5.1 Link Between the Politicians and the Businessmen

Savings out of black incomes are black savings. They need to be put in *benami* properties and routed / structured so that they are not easily detected. They may be passed through shell companies to wipe out the track of movement of the illegal money (this is money laundering) so that the beneficiary cannot be traced (as in the case of Bofors). Shell companies are fictitious companies set up to facilitate transfer of funds and once the funds have passed through them, they are closed so as to wipe out the trail. This is a specialised job and the politicians leave it to their business friends to do it. The businessmen derive obvious benefits from political connections by get-

ting policies manipulated to suit their needs — a *quid pro quo*. Further, this linkage insulates their black wealth from being exposed even when it is highly visible. The threat of exposure of their illegalities is minimised since others dare not easily touch them. As a bonus, they become members of top notch committees taking important decisions or suggesting policies in areas of their economic interests. Consequently, their business grows much faster than it otherwise would. This is the advantage derived from so called business "initiative".

Black wealth is also spirited out of the country as a precautionary measure. This is arranged through *havala* operations or via under-invoicing and over-invoicing of exports and imports. Businessmen are required to arrange such transactions for the politicians. Often, trusted family members are located abroad to manage the funds parked outside the country.

The new breed of inexperienced politicians, such as the JMM MPs in the mid-1990s and Ms Mayawati later have lacked the sophistication to work out such complex transactions. Intoxicated by power they did not try to cover their tracks and were quickly trapped. They bought property in their own names or put the ill-gotten money in their own bank accounts. They have become a lesson to other politicians as to what should not be done.

The investigations into illegality carried out by the executive are political in nature since those currently in power do what those presently out of power had done earlier. The intelligence agencies are aware of what is going on. For them the question is which information to act on and which to ignore. Those in the ruling group are largely spared while those in the opposition are often blackmailed either into silence or warned not to go too far in their opposition. The opposition always makes it out that the CBI is an instrument of political vendetta, yet when in power it acts no differently. Since only a tiny fraction of what is known to the agencies is revealed to the public the charge of the intelligence and investigative agencies acting politically appears to be correct.

That few politicians get prosecuted is also political. Either a political settlement is arrived at or it becomes clear to those in power that the game should not be taken too far lest it boomerangs on them later. Hence, as the Supreme Court has commented, cases are sometimes not properly presented or deliberately spoilt by the investigative agencies and this is also a pointer to a settlement (political or for money). Further, in India, it is easy for the powerful to manipulate witnesses. They are induced to turn hostile. This is evident in any number of cases, for instance, the Bharat Shah case, the BMW case and the Jessica Lal case.

5.2 The Triad

However, the link between the politician and the businessman is not enough to make the black economy systemic. The role of a third party is required — and that is the executive. They are responsible for administration of laws in the country, so the systematic violation is not possible unless they connive in it and the political leadership looks the other way. The bureaucracy, the police and the judiciary constitute the executive and have to be a party to the subversion of the rule of law. This constitutes the "Triad". Systemic illegality then requires the existence of a corrupt business class, a corrupt executive class and a corrupt political class. In brief, the Triad enables systemic illegality to survive and that propels the black economy. The Triad subverts the system and impacts administration and governance.

If the system can be subverted, then control over power is the quickest way of obtaining favours and increasing profits. Businessmen have realised it and have been moving to consolidate their hold over political power. They not only finance elections of their chosen ones but also fund parties, thus obliging the top leadership. Funding is based on *quid pro quo*. If such politicians who in reality represent the interests of the business classes have to win elections, the election process needs to be subverted. All manners of malpractices take place in Indian elections (*see* Kumar, 1999).

Promises at the time of elections are made only to be broken post-polls. This results in the alienation of the citizens. People's attention is diverted from the real issues. Divisions amongst the citizens have to be created so that opponents can be defeated and vote banks cultivated so as to be assured of votes. All manners of divisions based on caste, community and region are used for these two purposes. Since promises are broken election after election, the public has come to terms with their representatives not delivering. So, they only look for short-term gains — either bribes or favours. Governance comes under a cloud. Many have come to expect that only a leader beholden to them for kinship (caste, community or regional) reasons would serve their interests. Thus, both the leaders and the public have moved towards divisive politics. Corruption, non-performance and criminality of the candidates have become non-issues. National interest and non-sectarian functioning have taken a beating.

Such elections are expensive. They cost much more than the limits set by the Election Commission on election campaigns and this is illegal. Candidates have to raise big money unless they are rich themselves. Either way they are under the influence of big money and tend to represent its interest. Since most of the money cannot be spent legally and many of the expenditures are on illegal activities (*see* Kumar, 1999 for how a typical Indian election campaign is organised), black incomes have to be used for such activi-

ties. There is a two-way link between elections and black economy — black economy controls the elections and elections strengthen the black economy.

It is often argued that excessive election expenditures lead to the growth of the black economy because politicians needing money, look for funding from the businessmen and have to return the favours later. It is argued that this link needs to be broken. This is the basis of the plea for state funding of elections. As discussed above, vested interests are interested in subverting democratic functioning and want to control the politicians and the parties that come to power. So, it is the black economy, which deliberately subverts the elections to propagate itself. It is not that genuinely popular leaders need big money to fight elections. Their popularity would get them the people who would work for them and get them elected. However, today many of the leaders are cut off from the people and lack non-sectarian mass support. So, they have to hire workers and have to depend on party machines to get them votes. Even if state funding is made available for elections, the use of black money would hardly diminish, so that, as discussed in Kumar (1999), no dent would be made on the black economy or on bad governance.

How does the executive turn corrupt (which causes a decline in the quality of administration)? There are pressures both from above and from below. The political masters exert pressures from the above to subvert the system so as to oblige those giving political funding (discussed above). The interesting aspect of the relationship between the corrupt executives and the politicians is the funding by the former of the latter at the time of elections (Kumar, 1999). Those contributing become the favoured bureaucrats, police officers and so on. They get selected for prized postings and favours. There are rewards for doing the bidding of the political masters. The inconvenient ones are shunted around. They may be transferred and given difficult postings.

However, this is an inadequate explanation. The rot has set from within. Some argue that the executive is poorly paid, and therefore, are enticed by corruption. But how well can they be paid? The issue is not the absolute salary because in a poor country everyone cannot receive the income of an average businessman. What matters are the relative salaries. In any society, historically given income relativities are acceptable even when there are great income inequities. When these relativities change in a short time span, as happened after Independence, there is dissatisfaction among those who slide down the ladder (Kumar, 1985). Even this may not have mattered much but for the rising consumerism in society.

Consumerism has grown sharply due to growing individualism and disillusionment with the task of nation building (*see* Chapter V, Section 4 and Chapter VII, Section 3). This has been compounded by the demonstration effect from the West since the 1960s and especially after the launch of NEP in 1991. India has a per capita income that is about 1/50 of that in the advanced nations but its middle and upper classes aspire to consume the

same as the middle class in the advanced nations. The businessmen in India have rapidly moved towards the Western standard of consumption because of their rising income levels (black and white). The executive class has just about maintained its real income over the past 50 years. Hence, not only have they fallen in terms of relative income, but have also been unable to afford the Western style of consumerism so that their relative decline is visible. The only way this could change was through earning illegal incomes and misuse of official machinery. Thus, the pressure to become corrupt has arisen from within the executive class, from their peer group and their families. It is not just from above.

In brief, the growth of the black economy and its consequent impact on governance is due to the operation of the "Triad" consisting of the corrupt businessmen, the political class and the executive class.

6. Black Economy and Its Consequences

Black economy prevents society from achieving its goals, like the equitable spread of literacy and healthcare (*see* Table 1.2). The black economy has affected politics, which is now increasingly getting criminalised. It has destroyed the work ethic of a vast section of society so that few achieve world standards, whether in sports or in technology. There is waste of resources and alienation of the citizens from society rendering collective action almost impossible. It has been shown that an economy that has the potential of growing at 10 per cent per annum is growing at an average of 6 per cent per annum in the last two decades because of this waste (Kumar, 2005b).

The black economy poses a serious threat to national security. The links of the "Triad" with the criminals has resulted in the take-over of many legitimate businesses by smugglers and drug traffickers. This facilitates money laundering. These people finance politicians and those committing illegality (including terrorists) so that a section of politicians, executives and others have developed links with criminals. Such dirty money is entrenched in India's entertainment industry which is throwing up a crop of leaders who would not be able to take a stand against crime because of their own links with such people.

Growing illegality and the tolerance towards it in the top echelons (political, bureaucratic and business) in the country have serious implications. National security is being seriously compromised. Foreign agencies and business interests are suspected to get the most sensitive information for a price (or through blackmail). At the time of Pokharan II explosion in 1998, the Home, the Defence and the Finance ministers were informed that the event was to take place just a little before the blast because of the fear of

leakage of information to the Americans who would then have tried to stop or to prevent the tests. Contraband and suspects slip in and out of airports and ports and across borders due to connivance.

Raids are used as a political instrument. Yet, they cannot be done away with since they are required to establish the fact of ill-gotten wealth and its magnitude to prove the matter in courts of law. Black incomes are not immobilised money under the pillow; they are circulating in the national economy or are taken abroad. In the past five years, there has been a return of *havala* where black wealth spirited out earlier has been flowing back.

Foreign exchange reserves had reached record levels by the beginning of 2008 with capital returning to the country. However, there is a flip side to this, too. Dirty money was being laundered. A part of it was being used to finance illegal activities or used to take over businesses. Over time this fosters more illegality in the country. Further, corrupt politicians use such illegal funds to finance the election of their cronies in order to consolidate their hold over politics.

The public has come to accept such a situation since it has no choice or does not know and has become cynical. Since most leaders are corrupt, it votes back its "favourite" corrupt ones. The signal to the politicians is that they can do pretty much what they are doing with impunity since the price they may have to pay is small. They only need to patiently wait in the wings for their next turn. The clever thing is to collect enough money while in power and when out of it not unduly ruffle the feathers of the ruling groups but behave like a "responsible" opposition. This is the weakness of India's democracy — that people are confined to choosing between Tweedledee and Tweedledum.

The consequences are there to see. When those who are supposed to govern subvert the law, law and order becomes a casualty and criminalisation in society grows. Illegality has come to be accepted, governance has declined in much of India and policies fail. Society's capacity to deliver even simple essentials of life (such as education, health and drinking water) has declined and social action has been discredited. The black economy has led to increased waste and inefficiency and that has stalled development.

6.1 Black Economy and Macroeconomic Consequences

As argued earlier, the black economy affects all the macro and micro variables. The national income or the GDP capture the total economic activity in the country but leave out the production of social bads which reduce social welfare, like narcotic drug trafficking, prostitution, gambling and crime. It also does not take into account the unpaid or free labour. Say, that of a

housewife tending the home. In this sense, the GDP is an underestimate of total activity in the economy.

This anomaly pales into insignificance when compared to the impact of the black economy which is now running at about 50 per cent of the GDP. It results in systematic understatement of production and especially in the services part of the economy. Health, education, trade, finance, transportation and so on are grossly understated. Production in manufacturing is also understated and especially in the unorganised sectors which are still significant contributors to the output in the economy (*see* Graph 6.3). These sectors lend themselves to the organised sector for misclassification of production and hiding of incomes. The problem is not just in the private sector but also in the public sector which is not expected to misstate production. In their case, it is not that production is understated but the incomes are understated through siphoning-off of a major part of profits.

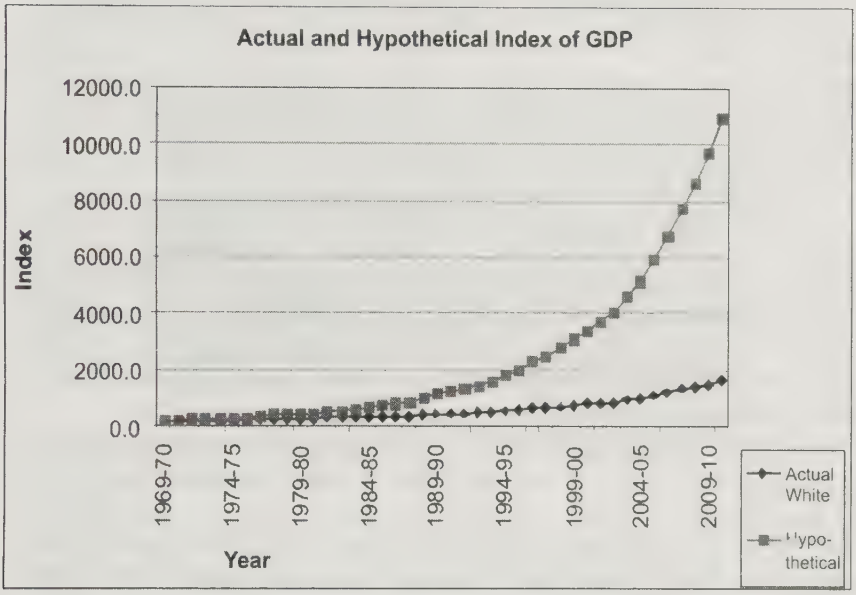
The mechanism for understating incomes by businesses is (a) overstating the costs and (b) under-invoicing revenue (*see* Kumar, 2006c). Consequently, a part of the output is not declared, resulting in black incomes generation. Further, the cost of production of the undeclared output is loaded on the declared output so that the cost of production of declared output is increased and the declared profits are lowered while the cost of production of the undeclared output becomes nil so that its entire revenue becomes the black profit. This way the white profits are lowered and the black profits are massively increased. The end result is that, say, a 10 per cent evasion of output can lead to black profits equalling the white profits earned out of the remaining 90 per cent of the declared output (*see* Kumar, 1999).

In brief, employment and wages are overestimated to show higher costs while profits are shown lower to avoid paying taxes. Not only are the estimation of both profits and wages in error but also the input-output ratios and the incremental capital output ratio used by the planners are rendered incorrect. No wonder the planning exercise in India has been failing for a long time.

As shown in Kumar (1999), the black economy leads to an increase in the savings propensity because of the higher share of profits. It leads to a lowering of the investment rate in the economy due to unproductive investments and leakages from the economy (Kumar, 2005b). These two variables are affected in the opposite direction. Thus, to take the black economy into account, one cannot just scale up every variable by a fixed per cent. Further, due to the rise in the savings rate, the value of the multiplier is lowered and the level of output becomes less than the potential. The rate of growth of the economy is lowered since the incremental capital output ratio is higher due to the black economy. For the past 30 years, since the black economy has become significant, the economy has been unable to achieve its potential rate of growth of around 10 per cent (*see* Graph 8.1).

Graph 8.1

Actual Growth and Potential Growth without Black Economy



(Source: RBI, *Handbook of Statistics on the Indian Economy, Various Issues.)*

Of the 40% of GDP of black incomes in 1995-96, illegal activities, like drug trafficking and flight of capital contributed 8 per cent (Kumar, 1999). Had this effort and energy been spent on legal activities, the country's GDP would be larger. A country, which is short of capital, exported capital to the tune of ₹ 75,000 crore in 1995-96 so that the shortage of resources is apparent but not real. It is believed that the nation is poor because it lacks resources but in reality resources are being squandered. Thus, even if the black economy is a worldwide phenomenon, it can hardly be ignored given its deleterious consequences.

The above is a brief account of the extensive effect of the black economy on national income (*see* Kumar, 1999 for a full account). Thus, NAS are in serious error and in need of re-estimation. The implication is that the various national debates cannot be resolved without reference to the black economy.

6.2 Impact on Poverty and Inequality

At present, there are two important debates with a direct bearing on policy. The government is keen to show that poverty is declining and that employment is growing so that it can claim success of the NEP launched in 1991. Critics, however, argue that these policies are pro-capital and lead to increase

in poverty and unemployment. Neither side looks at the critical role played by the black economy — both in the case of poverty and unemployment.

If the actual GDP is much larger, production and incomes are larger so that employment should be more and poverty lower. However, closer examination of the issues does not bear this out. First, estimates of employment generation are incorrect since a part of the work force is over-estimated due to the existence of the black economy and another part which is involved in illegal activities (incomes from which are not counted in national income accounts) should not be counted.

Second, black incomes are property incomes and concentrated in the tertiary sector (Kumar, 1999). Poverty is amongst the wage income earners and specially those in agriculture and in the unorganised sectors of the non-agricultural economy. Underestimation of value addition is of the property income component so that when black incomes are added to the white incomes, there would be no effect on the incomes of the wage earners and the poverty estimates ought not to be affected.

Third, since there are no reliable income distribution estimates available for India, poverty estimates are made using consumption data from NSSO. The accuracy of these data is suspect, especially, at the low and the high income ends. They do not discriminate enough amongst the upper income groups even though these people consume disproportionately more in per capita terms. Their aggregate consumption may even equal that of the others in the consumption category they are placed in. Therefore, those who generate large amounts of black incomes are clubbed with others who hardly generate black incomes. Hence, their true consumption is not captured and most likely is an underestimate.

The problem of those in the lowest income categories is that they are illiterate and therefore, unlikely to be able to report accurately. It is often suspected that the investigators may not even personally visit the poor but report impressionistically. However, it is unclear which way the bias would work — to show higher or lower consumption than the actual. If it can be assumed that this part of the consumption is correctly captured and so is the consumption of the middle groups, then only the consumption of the rich is under-estimated.

The implication is that the total consumption estimated by NSSO would be less than that obtained from the National Account Statistics (NAS), which in turn would be less than the true consumption (because of the black economy). As discussed later in Chapter X, poverty estimates were obtained by blowing up the figures for NSS by the NAS total. This erroneously inflates the consumption of the poor also and takes some of them above the poverty line and under-estimates poverty.

Finally, the increase in the size of the black economy implies a deterioration in the services available, so, a given real income means a lowering of the actual standards, say, in health, sanitation and education. Further, they get inferior quality products (like, in PDS or spurious medicines) which result in greater disease and malnourishment. Corrected for these factors, poverty levels would be higher than measured.

Disparities have grown and led to mounting discontent. Since the black economy is concentrated in the hands of just 3 per cent of the income earners, for 1995-96, the disparity in incomes between them and those below the poverty line rises from 1: 12 to 1:57 if the black economy is included in the reckoning (Kumar, 1999). Given the rise in disparities between these groups and the rise in the size of the black economy, for 2005-06, the ratio would be 1:60 and 1: 500. Such extreme disparities weaken commitment to the nation and the institutions and lead to alienation and a setback to social development in every sphere.

6.3 Black Economy and Social Waste: Digging Holes and Filling Them

The black economy has serious macro and micro consequences for the economy. It worsens poverty and acts as a check on development. Some argue that the black economy is not a problem since it exists in all nations or that it recycles incomes within the country and generates employment. It can be demonstrated that since the 1970s, the black economy is the single biggest cause of all the macro and micro problems the economy has confronted (Kumar, 1999). While it generates some employment, a large part of it is related to criminal activities or to violation of laws, which then result in a large expansion of law and order and enforcement and intelligence apparatus, all of which is unproductive employment. The result is a waste of the nation's resources akin to digging holes and filling holes — there is activity without productivity. Productive assets for future expansion are not created and the economy slows down. For example, the same road is repaired time and again rather than the money being spent on laying new ones.

The economic potential of the country declines when investment goes into unproductive channels, such as holding gold, speculating in real estate or if capital is spirited out of the country. All these activities are associated with the black economy. Due to these factors, if resources were not wasted, the private industry would have been far larger than it is today. Similarly, since the profits of the public sector are skimmed out by the corrupt, the size of the public sector is much smaller than it could have been. In effect, even if the black economy generates some employment, the overall employment

potential is reduced. Consequently, many of the young are attracted to a life of crime and illegality, which then propels the black economy — a vicious cycle.

As argued earlier (Section 3) on the ₹ 30 lakh crore of black income generation in 2009-10, the nation is losing ₹ 12 lakh crore of taxes. In other words, the public sector and the budget instead of having a deficit would have had a surplus. Enough funds would have been available for investment for the development of social and physical infrastructure, like roads, power, education and healthcare. This stepped up investment in infrastructure would have generated huge employment opportunities. In brief, the employment problem and the fiscal crisis are both related to the black economy.

The failure of planning and of specific policies (such as compulsory education of children) is critically linked to the rapid growth of the black economy. The government is unable to achieve targets since funds allotted are spirited away and whatever reaches the field is inadequate to deliver the quality of services required.

Policy also fails at the micro level. Roads become potholed, drinking water in the pipes is polluted, urban planning breaks down, electricity is not of the correct voltage, etc. The citizen feels harassed, for instance, when there is illness in the family one does not know where proper treatment may be available. Equipment and appliances are of poor quality and break down routinely. There is tremendous waste. The number of voltage stabilisers used, the inverters and generators installed and water purification devices on taps tell their tale of failed policies. Most development degrades the environment but the routine violation of all laws has led to much more of it than would have been the case. For instance, discharge of polluted water into rivers, polluting automobiles and toxic waste improperly disposed of. At a very low level of consumption, India's rivers and air are almost the worst polluted in the world (*see* Chapter X also). In spite of cheap labour, as a result of inefficiencies, India is rated as a high-cost and low-quality economy. All this shows up as poor governance.

Every professional section of society shirks work to generate extra income. Many teachers do not teach properly so that they can get more tuition. Chartered accountants are willing to sign on the dotted lines of cooked up accounts. Police is busy collecting *hafta* rather than taking care of law and order. Bureaucrats harass the public so that they can extract bribes. Little gets done in the routine way. Businessmen set up companies with public funds and turn them sick by siphoning off funds from the balance sheet. The work ethic has suffered so that attention to detail is missing. This has led to India lagging behind in the international sphere where competition is severe and only the best wins. A country of over 1.2 billion is mostly an also-ran in

most sports in the Olympics whereas even tiny countries — smaller than most of India's metro cities — have won medals.

The black economy also underlies the breakdown of India's democratic institutions, like the legislature, judiciary, media, police and educational institutions. Individuals at their helm subvert them by treating them as their personal fiefdoms to earn extra incomes.

6.4 Black Economy, Growing Alienation and Atomisation

Due to the black economy, the "usual becomes the unusual and the unusual becomes the usual" (Kumar, 1999). That which should happen does not happen and that which should not happen keeps happening. Police should maintain law and order but encourages crime so as to collect *hafta*. Instead of getting 220 volts of electricity routinely, it is received accidentally on some days but mostly it fluctuates and causes bulbs to fuse and electrical equipment gets damaged. The citizen leads a harassed life facing difficulties all around and becomes cynical because nothing seems to work the way it should and alienation sets in so that belief in social action erodes. Work is not done in the routine way so that bribes can be extracted and the work ethic suffers.

It is not that the advanced nations do not have a black economy but (a) it is small in size and (b) it does not affect the day-to-day life so that the citizen does not feel harassed. In the advanced nations, one does not have to deal with the telephone linesman, pay the postman at festivals, keep the electricity department official happy or pay bribes at the various offices. All these inefficiencies are a part of day-to-day life in India.

Policy failure on a wide front has led to demands for a retreat of the state and a discrediting of collective action. Individuals have developed a sense of grievance and belief that there is lack of social justice. Consequently, individual solutions are being sought and making money by any means has become justified. The idea of the nation is weakened and loyalties are based on region, caste, community, etc. In brief, the black economy has sapped the spirit of "nation" created at the time of independence; there is loss of dynamism — another name for poverty. This affects governance and lowers the capacity to set goals and achieve them. Disruption of society from the colonial times has become entrenched.

7. Some Recent Important and Illustrative Cases

Scams and cases of corruption are being disclosed with breath taking rapidity and making the public cynical. A list of important scams from the mid-fifties to mid-nineties is given in Kumar (1999). A list for the period 2005-

2008 is given in Tables 8.1-8.3. It is startling in its scope, covering every aspect of the citizens' life and affecting the economic, political and social life of the nation. A few generic cases that have come up in 2009 are discussed below to illustrate the functioning of the Triad in the country.

7.1 Big Business

Starting 2009, the Satyam case shook the corporate sector to its core. It was a highly respected company and its Chairman, Mr. Raju was a blue-eyed boy of the industry and the political class. The scam showed that for a long time he was committing every kind of fraud that the corporate sector was accused of. He was siphoning out funds from his companies and presenting a picture of a larger employment (no less than ten thousand) than he had and using this device to earn hundreds of crores of black incomes annually. He had a trusted few who knew about it but the rest of the top brass only knew bits and pieces so that they knew nothing of the overall picture and did not suspect any illegality. He was hobnobbing with top politicians to get big projects for his new companies in infrastructure. He had opened hundreds of companies to move funds around without being noticed. He was taking money out of the country and then bringing it back to control companies and investment.

He had a pliant board of directors where the big names chosen as independent directors were rubber stamping his decisions and not representing the interests of the share holders. The working of the "Triad" was very much in evidence. Due to his clout he got all the comforts in prison and then moved to a hospital. Cases against him are taking an inordinately long time to come to trial. This is in sharp contrast to the US where the Madoff case saw prosecution in about a year's time. The fear is that as happens in so many cases of the high and mighty, the investigative agencies will spoil the case by inadequate investigation.

Mr. Raju with enormous resources held in different companies in India and abroad may be able to influence the right people and even otherwise can use the legal system to drag the case for a long time. The Telgi case has seen prosecution now after 10 years. Mr. Harshad Mehta could not be brought to book for years and he died with not much clarity about where the money he misappropriated went.

There are suspicions of use of tax havens and dummy companies (350 have already been found) to siphon out money without trace. It is likely that there was under-invoicing of exports to siphon off funds from the country. The role of the independent auditors who are supposed to be watchdogs on behalf of the public and the government has been questioned. It has confirmed the belief that auditors generally sign on the dotted line so that con-

siderable manipulation of the profit and loss accounts and balance sheets is possible.

Satyam's case is not a one off instance. The practices exposed are widely used by Indian businesses. It is not to argue that there are no honest businesses or auditors. However, the definition of what is considered to be honest is pushed by even the honest businessmen so that honesty has become relative. So, till the time I can get away, I am honest; as happened in the case of the blue eyed boy, Mr. Raju.

Another instance of corporate machination has been brought out by the raging battle between the Ambani brothers. Analysis of the functioning of Reliance Group has lessons for corporate functioning in India. The Ambani Group has expanded the fastest in independent India to make Reliance the largest business house by the time of the death of its scion Mr. Dhirubhai Ambani. He was no doubt an astute businessman who constantly pushed the frontiers of what was doable. According to reports, he had a huge network of supporters amongst politicians, bureaucrats, police, judiciary, world of finance and so on. While the company gave the shareholders high returns, it has repeatedly taken them for a ride.

They floated companies and then rearranged them in such a manner that their own wealth increased sharply while the shareholders were left confused about what was going on. In any case there was little chance of affecting the outcome of the board decisions, given the control of the Ambanis. The control is not only direct but is also facilitated by indirect control through holdings of friends, business associates and financial institutions who are willing to oblige the group. When in 1982, a cartel of bear operators possibly linked to their business rivals, tried to beat down the price of Reliance shares in the stock markets, according to a reply given in Parliament, funds from foreign investment companies with names, like "Crocodile" flooded into the stock market overnight to support Reliance shares and the bears lost out. Clearly, the Ambanis had / have supporters abroad also and funds have been available, their own or someone else's.

Reliance was involved in a fight with their rival Bombay Dyeing. They managed to systematically win against the latter in spite of its clout and the help of a major and powerful national paper. This is because they were more systematic in cultivating their contact network in the corridors of power. Even in the stock markets they have held clout as repeatedly shown by the case of duplicate shares, the case regarding nexus with financial institutions, like UTI and obtaining funds from them and the case of manipulation of the share prices by them by financing purchase of their shares by group companies. They have had cases of manipulation of MODVAT payment and customs duty payment. In one case, they managed to have the case transferred from Ahmedabad to Mumbai and when the hearing was due, the government

lawyer could not appear since he said he could not catch a flight to reach Mumbai and the case was lost. No wonder, there has been little action against the group because of its excellent management of the environment for its functioning.

Reliance maintains a large liaison office in Delhi whose task is to cultivate links in bureaucracy and politics. They get commercially relevant information through their sources in advance so as to outdo their rivals. In fact, their man in charge, was once caught with important budget papers and more recently another of their employees had to cool his heels in jail for a few days because he was found to be in possession of important Cabinet papers. It is not just Reliance which maintains liaison offices in Delhi and other state capitals but almost every important business house does so. All of them realise that manipulation of policy and policy makers is an important aspect of managing the business environment and competition. The liaison men also try to influence MPs to not ask uncomfortable questions in Parliament and if they do not oblige then they pressurise the high command to make the MP fall in line. They fund various activities of MPs on a day-to-day basis to keep them well disposed towards their business group.

The clout of Reliance extends to the top most political and bureaucratic circles and only a rare bureaucrat has taken them on. In one such case, when a customs official passed an order against them, he was transferred overnight. In the first budget announcing the start of liberalisation of the economy in 1991, and the supposed end of the special favours to the chosen ones, Reliance was given concessions worth ₹ 450 crore in spite of the reported objections by the Finance Ministry's top officials. This was repeatedly objected to in Parliament but nothing could budge the Finance Minister from withdrawing this concession. Another instance of their persuasive power is that of an editor of a national daily who campaigned long and hard against Reliance and later became a minister. At the death of Mr. Dhirubhai, the praises he showered were far more than is customary at these occasions. He obviously had a change of heart at some point.

The fight between the Ambani brothers on the division of assets began soon after their father's death. In fact, most business houses and partnerships even amongst close friends and family, typically, break up in India. This is largely due to the dispute over sharing of the black incomes generated by the businesses since they are not formally accounted for. Hence, suspicions arise that the other partner(s) in business is taking a larger share of the black profits. The control over the business is critical to control the black profits. The part of the business wealth spirited out of the country also is unaccounted for and results in partners falling out with each other. That is why the division of assets is not a smooth affair. Even judges cannot give a judgement which is fair because of what is not on paper. Only those who also understand the

black part of the particular business and confidantes can arbitrate, in other words, close business associates who are trusted by the parties can do so.

The Reliance group built its empire starting with textiles and then moved into petrochemicals, including drilling for oil and gas and refining and then moved into power generation, telecom and retailing. They were always in finance and have expanded this part of the business as well. This huge empire was built on massive manipulation of policies right up to the highest levels.

Matters came to a head between the Ambani brothers on the issue of supply of gas by a firm of one brother to the other brother's firm to produce power. If the price of gas was low then the brother producing power would make massive profits and if the price of gas was high the other brother would make massive profits. NTPC, the PSU in the power sector, also got embroiled since they were also to get the gas at a low price and this would become the benchmark price for the supply of gas. Powerful political groups got involved in the fight till a settlement brokered by the mother came through after the SC judgement in the case.

The above description of the kind of activities indulged in by Mr. Raju of Satyam and the Reliance group shows that businesses are being built through manipulation of policy makers and of policies — in India this is called "initiative". The shareholders have often been taken for a ride because they are unable to influence corporate decisions. The financial institutions do not act independently and the "independent" directors on the boards are usually not independent but largely decorative and often in cahoots with the managements that have chosen them for that purpose. There is manipulation of the share prices through insider trading and funds are siphoned out of businesses. This becomes feasible because of the clout enjoyed by the businessmen and the Triad stands by them. Not only do the businessmen manipulate big things but they also get used to doing small things, like the private plane imported by the Ambanis was in the news for the wrong reasons and the plot of land on which a 27-storey mansion is being built was apparently Wakf Board land and how it was acquired remains shrouded in mystery. Businessmen hardly fear wrong-doing because the environment can be manipulated through the Triad.

While it is true that a Dhirubhai or a Raju has built enormous empires and created industry and jobs and helped in the nation's development, it is also true that they have subverted the systems so totally that they have increasingly become non-functional. Governance has suffered, systems have become inefficient due to this subversion and cynicism reigns. The cost of these negatives has perhaps cost the nation many times more in loss of growth than what these worthies have generated. As suggested by Graph 8.1, if the per capita income was 7 times more than it is today, annual loss of

income due to the black economy amounts to ₹ 350 lakh crore. This would be about 30 times the production of the entire organised sector of industry. As argued in Kumar (1999), no matter how fast one runs in a labyrinth, one cannot escape without the correct lay-out plan and Indian businesses have got India stuck in a labyrinth with the wrong road-map.

7.2 The Executive

The executive in the "Triad" consists of the judiciary, the bureaucracy and the police (tangentially, there is also the military). Recently, very serious charges have been levelled against members of each of these wings. The examples given below illustrate the kind of serious illegality in which these elite sections of society are involved. The lists in Tables 8.1-8.3 show the increasing scale of their involvement in illegality. The cases discussed below are not the routine or minor ones, like misuse of the official car or telephone.

Cases Regarding the Judiciary

Impeachment proceedings were initiated against Justice Dinakaran, the Chief Justice of Karnataka High Court. He was to be elevated to the Supreme Court. His name had been recommended by the Collegium of the Supreme Court and the file had been sent to the President for approval but at that point of time it was reported that he had been indulging in wrong doing. For instance, he had appropriated government land as his own. This was corroborated by the report sent by the District Magistrate of the area. There was national furore with lawyers in Karnataka High Court objecting to Justice Dinakaran presiding in the Court when serious charges stood against him. The SC was forced to withdraw his name for elevation to the SC.

In the meantime the Campaign for Judicial Accountability (CJA) got signatures mobilised from the Rajya Sabha MPs for the impeachment of Justice Dinakaran (Dinakaran Impeachment Application dated 4-12-2009) and after the requisite number of MPs signed from the Opposition benches the motion was admitted. The case is one of blatant misuse of judiciary's authority to silence the local politicians, the bureaucracy and the police.

The judiciary has also been using the threat of contempt proceedings to silence criticism. People are unable to challenge the judiciary even when it commits wrong because of fear of contempt of court. This writer had to remove references to the Judiciary from Kumar (1999) because the lawyer of the publishers advised that anyone could harass them with contempt of court for writing about judicial corruption. It is the CJA that of late has taken up a campaign to circumscribe the (mis)use of contempt of Court proceedings.

Earlier in 2009, a notice of impeachment was submitted in Rajya Sabha by 58 MPs against Calcutta High Court Judge, Justice S. Sen. On the basis

of an in-house probe the Chief Justice of India in a letter to the PM had recommended his impeachment. The probe had found that the judge who earlier as a lawyer had been appointed as receiver and special officer in two high court cases had misappropriated large sums of money. In the 1990s it was Justice Ramaswamy whose impeachment was taken up in Parliament. Thus, sitting judges are coming under increasing scrutiny of the public because of the suspicion of growing corruption in the judiciary.

In another bisarre case involving two judges, ₹ 15 lakh was mistakenly delivered to Justice Nirmaljit Kaur instead of Justice Nirmal Yadav of Punjab and Haryana High Court. The implication of this case is that money was possibly being passed to influence some cases being heard by the latter . A few years back a file of the Delhi High Court was found with a builder apparently so that he could see if the judgement to be delivered was to his liking. The recent PF scam in Ghaziabad Courts involving judges shows the level of manipulation that judges are willing to stoop to because they seem to be emboldened to believe that they are above law.

In a shocking case, the former Chief Justice of India, Justice Sabbharwal was accused of impropriety in the Delhi sealing of property cases. According to the story, his sons in league with the land and building mafia, were buying up land while sealing was going on in Delhi so as to profit from the rise in property prices. They used the official address of the Chief Justice to float the company, which was buying up the land. The newspaper which broke the story was hauled up for contempt of court. Fortunately, the Supreme Court was shamed into issuing a stay on the proceedings when a group of intellectuals also stood up in support of the paper. The SC while staying the proceedings argued that it knew how to protect the interests of the judiciary.

One very senior lawyer, speaking at a seminar organised by the CJA commented on a statement by a Judge that 'today 20 per cent of the judiciary is corrupt, and said "the implication is that at least 50 per cent of the judiciary must be corrupt". The reason he advanced for his statement was that since these people are promoted by other judges, the latter must also be compromised, otherwise the corrupt could not have entered and got elevated in the judiciary. This is a very serious charge and brings into question the entire system of justice. The Gujarat chief justice, expressing concern at the future of Gujarat judiciary, said "you can buy anybody with the power of money" (TOI, 2010). As it is, law is very complex and even the educated are often clueless about its intricacies. In addition, if extraneous reasons intervene, the complexity becomes bewildering.

A senior lawyer remarked that he cannot predict how a case will fare because of the whims and fancies of judges. Such uncertainties in the law damage society's normal functioning. For instance, if a lease agreement for

renting out a property is registered but at the expiry of the lease it does not get vacated because the tenant knows that he can have a case dragged in the court for years then it indicates the contempt for law. In these kinds of cases, registering a lease agreement becomes infructuous and a tendency develops for the landlords to resort to other means or people stop renting out property and keep it for speculative purposes. In Kerala, there are gangs which can be paid a certain sum of money to act as agents to break a person's leg or an arm or to cause other injuries.

Even simple cases drag on for years thus clogging the courts and people lose hope and faith in justice and become cynical. According to CJI, at present there are about 27 million cases in courts and there is a need to create 35,000 more courts to clear the backlog (TOI, 2010a). Societal functioning requires that individuals have faith in the rule of law lest they begin to take the law into their own hands, complicating matters and leading to a breakdown of societal functioning. Delays mean that in the lower courts judges have to deal with thirty to forty cases every day and often they can only allot a few minutes per case. Within this time span they have to understand the case, listen to the advocates and pass some order and give a date for the next hearing. An impossible task.

As a result often mistakes are made. Further, at any point of time, each judge at the lower levels has a large number of cases pending with them with the result that the turn of a case comes once in a few months and they can only have a vague recollection of what it is about. Each time they have to look at it as if it is a fresh case. As the case drags on the judges change so that during the pendency of a case it may pass through half a dozen judges and it becomes a new case each time because each judge is unsure as to why certain orders were passed by the previous judge and they may not wish to do anything about it lest they make an error. All these complexities at times result in incorrect judgements. Since it is not easy to have orders rectified because that can also drag on for years, often people have to remain satisfied with what they get. For these reasons, litigants try to use influence to get favourable judgements. All this encourages wrongdoers who are willing to bend the system for their own benefit and put the law abiding citizens on the defensive. These are the direct and indirect ways the judiciary has encouraged illegality to flourish and the black economy to grow.

DGP Rathore Case

The case of DGP Rathore's molestation of Ruchika, a 14-year-old girl made headlines. Justice was not done even 19 years after she was molested in 1990 and 16 years after she committed suicide in 1993. The suicide followed severe harassment faced by her family. She was thrown out of the school on the pretext of not paying fees but she was the only one who faced this con-

sequence out of several others who also had not paid the fees. Her brother was fixed in cases and administered third degree treatment in police custody. Goons used to loiter around the house threatening the family and so on.

There was connivance of the senior police officials, CBI officials and the politicians who (a) spoiled the case at every step, and (b) ignored all the evidence to protect one of their own. It was only the persistence of a friend and her family that kept the case going and with the public campaign by the media and some friends that the case was taken up seriously by the system. Also, since Rathore is retired and no more powerful, so perhaps dispensable.

Ruchika's inquest report apparently was forged and it stated that she died due to overdose of medicine she was taking for losing weight. This became the basis for the CBI not filing a case for abetment to suicide. The trial court had framed the charge of abetment to suicide despite the CBI's opposition but the Punjab and Haryana High Court and Supreme Court set aside that decision. This, in spite of Ruchika committing suicide during the detention and harassment of her brother. This connection was suppressed by the CBI and it was stated by them that the brother who was in detention "did not make himself available" for examination. The SC set aside the HC order to probe the brother's complaint of being framed in a theft case. What does all this reveal about the connivance of the police, the CBI and the politicians? What does one make of the actions of the highest courts?

Someone who could so blatantly manipulate the system to protect himself could only do so because he was sure of the support from his seniors. Mr. Rathore, in spite of the serious allegations against him, CBI enquiry and court cases was consistently promoted by his seniors and the political authorities and he ultimately became the DGP of the State. The consistent support from above suggests that he must have been useful to his bosses and politicians. Thus, illegality runs right to the top and there is connivance of every wing of the state — the triad in operation.

The police is an important factor in the functioning of the rule of law. However, Rathore's case suggests that it is heavily compromised because of its involvement in encouraging illegal activities. As described in Kumar (1999), a large part of any police force of a city is on what are called "wet duties". The beat constable, collects money from all establishments, encroachers, pavement shops, the *rehri wallahs* and so on at weekly or monthly intervals. The money collected is shared in well-defined ways amongst the different ranks, right up to the top. Prized postings in commercial areas are auctioned for high amounts. The police have links with people committing illegality (such as pick pockets and car thieves) and receive payoffs from them.

The Brutalisation of the Police Force

A Rajya Sabha MP whose flat in Bhopal was burgled and TV, etc. stolen corroborated the existence of such links. The day after the theft, the police brought a TV to replace the stolen one but the MP's family was fond of their own TV so insisted that they wanted their own set back and it arrived the next day. A senior journalist whose purse was pinched from her car at the New Delhi Railway station parking complained to higher ups and next morning received a phone call telling her to come to a certain market where her bag was found lying with most of the valuables intact.

One senior retired home ministry official commented that every additional police station means more crime since they have to generate *hafta* and encourage illegal activities to facilitate all this. After all, encroachment in Delhi which the SC ordered removed did not sprout overnight. It had accumulated over 50 years. Since no encroachment is hidden from the gaze of the police or the public, it can only take place with the connivance of the authorities. The political class, the police and the municipal authorities all have a share in the illegality, which allows it to flourish. No wonder the police have a vested interest in allowing various forms of illegality. It is a moot question what respect will they or the public have for the law of the land.

Practice of illegality by the police has resulted in its brutalisation and criminalisation. Lower levels have to keep the higher echelons happy. Further, the higher ups have to keep the political bosses in their good books by doing their bidding. The police is mostly either manipulating on behalf of those in power or solving cases through third degree methods. They do not have the inclination to solve the cases in the proper but tedious way. As crime flourishes due to (a) connivance of the police, (b) manipulations of the Triad, (c) the growing alienation of the people, and (d) consumerism making people try to earn by unfair means, the police present the picture of an overworked force, which has little time for niceties.

The many encounter deaths and custodial deaths have often been found to be nothing more than vendetta or attempts at extortion or violation of civil rights of those protesting for their rights. Following terrorism in Punjab, there were teams of policemen who had the power to kill and they staged "encounter deaths". Such teams have been operating in Mumbai, Gujarat, Delhi and so on. It has been found that these teams after a while have resorted to blackmail and extortion; a result of lack of accountability and becoming a law unto themselves. Eventually, many of these policemen have been arrested on serious charges. The brutalisation of the police is also visible in the way that it has been dealing with protestors — like in Gurgaon in the Hero Honda case a few years back or more recently in Mumbai when

people were protesting about their civic amenities. No wonder the distance between the police and the people has grown.

Some people empathise with the police for being poorly paid and overworked; both true to an extent. But higher pay cannot make a dent in the system since salaries cannot be in lakhs to make them commensurate with what the police can earn through the *hafta* system. Traffic police in Metros are supposed to be able to earn hundreds of crores of rupees monthly through non-prosecution of traffic violations, allowing private bus operators to violate laws with impunity and collecting monthly payments from transport companies, among others.

Raids on bureaucrats and policemen have yielded large amounts of cash and properties in the names of wives and children or in "benami" accounts. Recent cases involving bureaucrats are those of the IAS couple in MP, Malhotra in Delhi and in NOIDA land allotment case. The name of the UP Chief Secretary was involved in the latter. Other recent cases of police officers caught committing illegality are Mr. R. K. Sharma in the murder of journalist Shivani Bhatnagar and the fake encounter case against Mr. D. G. Vanjara. There are any number of such cases pointing to the rot in the police forces.

Tatra, Adarsh Society and Sukna Land Cases and Army Top Brass

The army chief has said that he was offered a bribe to clear a purchase of Tatra trucks. In the Adarsh society case and the Sukna land scam, the top brass of the Army and Navy were involved. The military is the defender of the state and is expected to be insulated from civilian life and its corruption and hence expected to be honest to the core. Yet, there have been growing reports of corruption in the military. The corruption in the Army Canteen system, as narrated by an important supplier to the Army Canteen was presented in Kumar (1999). The way military officers have been resigning to become middle men for arms suppliers and contractors and using their influence with their former colleagues has been a source of deep concern. In defence deals usually the margins are high with reports of mark ups of even hundred and two hundred per cent in small deals. Such margins are possible only if there are pay-offs. Former military officers who have become middlemen and are rolling in money, become the signal to others to also follow suit.

There have been reports of corruption amongst the forces in J&K and the North East and some go to the extent of suggesting that the army and the para military forces are vested interests who do not want a resolution of the problems in these areas. Military expenditures are like holy cows since they do not face public scrutiny in the name of secrecy. The military Budget is not discussed in Parliament either. No wonder military officers of a very poor country live like kings with big houses, a battery of people to help organise their lives, vehicles and aircrafts at their beck and call and so on. The

traditions of the colonial army were carried forward into the Republic of India. Perhaps this is the price for the country's security. But, why the growing corruption? Why is it that what is available legally is not enough?

In this age of consumerism no amount of income is enough, and especially so after retirement. Further, salaries compared to the corporate sector are low. Consequently, those with technical skills, engineers, doctors, pilots and so on have been leaving in droves to join the private sector. Consequently, there is a serious shortage of skilled manpower in the forces to the tune of 30 per cent. Skilled people are now less interested in joining the forces and instead prefer the private sector. These factors leave many in the forces dissatisfied with their lot and this pushes them into corruption.

In the Army land scam that came to light in 2009-end, four Generals, including senior ones have been found to be involved. An MOU to obtain NOC from the Army for 71 acres near the 33 Corps HQ in Sukna Cantonment in the Darjeeling area was to be obtained by a real estate developer and undue influence was used for it. He was in constant touch with Lt Gen Avadesh Prakash, Military Secretary to Army HQ while the MOU was being drafted to clinch the deal.

The Commission of Inquiry has brought out that he used his influence to see that the deal went through. Apparently, the deal was cleared against the norms. Lt Gen Rath who was commanding 33 Corps at the time of the deal had approved the NOC. He is reported to have stated that Lt Gen Prakash had recommended an educational institution run by a friend of his for the deal. Lt Gen Rath's appointment as the Deputy Army Chief has been scrapped. Administrative action has been recommended against Lt Gen Prakash and he has been replaced. The then Brigadier who had become a Maj. Gen has been recommended for disciplinary action and court martial for giving wrong advice. So, the junior most officer involved, who was the most vulnerable to pressures from the senior officer, has been given the maximum punishment. Is this fair?

It is not yet clear whether further investigations would be opened into any other favours that may have been granted to the land developer who had been known to Lt Gen Prakash for the past many years? Can we be sure that there are no other such deals in the closet that have not come to light? It also needs to be ascertained whether the junior officers are under pressure of the seniors in wrong doing. What is the role of the Army intelligence and the Audit department in keeping track of what is going on? The danger is that corruption leaves the military open to penetration by the enemy and foreign agencies that are looking for opportunities. The growing links with the US army can be potentially disastrous since they are capable of offering large inducements to compromise Indian officers. The way a RAW officer de-

fected to the USA in the recent past suggests that these possibilities are not in the realm of imagination but are distinct possibilities.

The disturbing aspect of the various scams presented above is that they point to a deep rot in all the wings of the executive and the military. The executive has been conniving in thwarting the policies which spreads cynicism in the public.

7.3 Political Class

The political class provides the leadership of the country and is at the top of the heap. It has the maximum impact on the country. When it becomes corrupt, the entire country gets affected and takes a turn for the worse. However, in a democracy it is the people who elect the leadership, so a part of the blame for electing the corrupt leadership has to be shared by the public. Clearly, there is a vicious circularity with one feeding on the other.

Those gaining the most from the black economy, the business class, deliberately promotes the corrupt leadership so that it continues to flourish. The public is left with little choice between one corrupt set of people and the other. In this sense, it is the business community in India which has to bear the major share of the blame for the growing black economy. Now that the candidates have to declare their wealth (and that of the family), one can trace the rise in the declared wealth of the politicians and data shows it to be rising exponentially. No doubt their undeclared and benami wealth held in India and abroad is likely to be rising even faster. The number of crorepatis getting elected is rising by leaps and bounds because money is the grease for getting to power (ADR, Various Reports). This raises doubts on how far our elected representatives represent their constituencies and the poor people who elect them. Businessmen making extra money based on policy manipulation share a small part of it with the political class and both get richer. Now many politicians have become businessmen in their own right.

Madhu Koda Case

In 2009, Mr. Madhu Koda, the former CM of Jharkhand, was implicated for committing massive fraud. His case illustrates how quickly politicians can get rich. Some, like Mr. Koda get caught while others are clever enough to escape unnoticed. Not only do the clever ones know how to hide the money trail, but they also do not rub other powerful people the wrong way and share the loot with them. Mr. Koda, the son of a small farmer, himself a labourer, making window grills, had a meteoric rise within ten years from becoming a minister of mines to becoming a Chief Minister and the reported owner of more than ₹ 4,000 crore of assets. He rose under the BJP regime but became an independent and headed a minority government of independ-

ents supported from the outside by the Congress (I). He learnt how to manipulate the system. His case shows that none of the political parties are clean and therefore unable to take a stand.

The story (*see* Ray, 2009) is that of rags to riches perhaps even more fantastic than that of Bill Gates. In ten years' time, he is estimated to have made thousands of crores by giving out mining licences. Through havala trading he has apparently spirited out a large part of his wealth from the country. The Enforcement Directorate and income tax men claim that they have clinching evidence that Mr. Koda invested in coal mines in Liberia, in steel and mining operations in Malaysia, Thailand, Hong Kong and South Africa and that he has two companies in Dubai to control these global operations. He apparently owns a hotel in Thailand, real estate in Rajarhat and Kolkata, flats in New Delhi, bullion trading companies (like Balaji Bullion) in Mumbai, and so on. In an endless list, one example is of investment of ₹ 250 crore in 11 companies, controlled by an associate who was formerly a tractor mechanic.

The wealth was accumulated on the basis of money received from many illegal activities. The coal mafia paid him off to buy protection for its illegal operations. He also made money from illegal operations of other mining companies. As a Panchayati raj minister, he apparently misappropriated funds from poverty alleviation schemes. Mr. Koda cleared 48 mining licences in a single hour. During his term as mining minister, the state signed MOUs worth more than ₹ 1 lakh crore to set up sponge iron and steel plants. He also rapidly renewed or issued fresh licences to miners. Illegally mined ores were sold to sponge iron units which could not be shown on their books. They were finally nailed only because of the extra power they were using. A large part of the bribes went directly to havala operators for transfer abroad.

How did the former CM get trapped? Suitcases of funds were being transferred as baggage on a flight to Dubai. The customs authorities noticed this and detained an associate who was transporting the money. He was released due to political pressure and then absconded from the country. The Customs authorities then informed the Income Tax department and the Enforcement Directorate who took up the case and one thing led to the other. The chain also stretched to the banking sector with reports that over ₹ 600 crore were deposited in a Mumbai bank branch over the two years of the Chief Ministership of Mr. Koda. The bank did not warn the authorities as it should have.

A havala operator who was caught has been investigated and the suspicion is that he was also acting for other politicians and businessmen. Such operators exist in all the major metros of the country and have links abroad to transfer funds. This was first discovered in the Jain havala case in 1990

when the names of 50 top politicians came out. At that time, these politicians were indignant instead of being ashamed that they were caught since other politicians, businessmen and officers using other havala operators to routinely transfer money were not caught.

It is unclear how much would come out in the Madhu Koda case. Usually in most such cases a settlement is arrived at and the matter put on the back burner. The case may be deliberately spoilt as has happened in so many other cases. Given the massive corruption in the Customs department why was Mr. Koda's man caught? Could it be a political act to bring Mr. Koda to heel?

At the time of the death of the CM of a southern state in 2009, it was suggested that he had amassed wealth to the tune of tens of thousands of crores. He did not indulge in small corruption and saw to it that the government schemes for the poor ran properly so that he could be popular and get the votes to win elections. He apparently made big money on the sanctions to big projects and purchased parcels of land in advance around the newly sanctioned infrastructure projects. The nexus established with the businessmen who were sanctioned projects was so strong that after his untimely death, they wanted his son to become the CM so that their investments would be safe. The deceased CM while alive had initiated a new stratagem in the Indian black economy — a mix of honesty and corruption. During his life time, his predecessor had accused him of making money and he retaliated by accusing him of having made big money. There are suspicions that both were involved in the affairs of Satyam Computer and its manipulations.

Many other CMs are reputed to have also amassed huge amounts of wealth through the large number of major projects they have sanctioned in their states — SEZs, roads, airports, power plants, metal plants and mines, educational institutions, and more. As one businessman put it evocatively, the wealth of some politicians begins where one's imagination ends about how much wealth one can have.

Bellary Iron Ore Mining

In another important case that has come to light recently the Reddy brothers of Karnataka have been accused of illegal mining in Andhra and Karnataka. The former CM of Andhra, Mr. Naidu, went on record saying that the Reddy brothers are looting the country's mineral wealth through illegal mining (Balaji, 2009). Mining was allowed in a reserve forest in spite of objection by the Central Government's forest department and because YSR had clout at the Centre, he could carry the day for the mining mafia. As a result of the operations, even the boundary between Karnataka and AP got changed. YSR was accused of allotting 1.5 lakh acres to his close relative.

The company named OMC owned by the Reddys increased its turnover from ₹ 35 crore in 2003-04 on an investment of ₹ 20 lakh to ₹ 3,000 crore with provisional profits of ₹ 700 crore by 2008-09. This was legal but thousands of crores have been earned through illegal mining and that is unaccounted. The Central Minister of forests informed the Rajya Sabha that the YSR government was not allowing the department to carry on a survey to fix the state and the village boundaries.

The CM in Karnataka, under whom the two brothers were ministers, was helpless in the face of opposition by the two brothers and his government was almost toppled by them. Trouble started when a cess was imposed on lorries carrying ore. Miners decided to revolt and the government almost fell and there was the spectacle of a CM in tears on national TV. The power of the Reddy brothers can be gauged by their blatant announcement that Bellary, from where they hail, is their territory and made it out of bounds for others, including the CM. How many Reddys are there on our political stage today?

Stories abound of the Reddy brothers browbeating the local bureaucracy and buying out the local inspectors and the police. Other miners in the area have complained of their mine land being taken over by the brothers without their being able to do much about it since the local administration was in league. This is bound to happen — if the CM is unable to do much, how can the local administration take on such powerful people?

Allotment of 2G Spectrum

The 2G Spectrum allotment scandal perhaps is the biggest case which resurfaced in 2009 since Mr. A. Raja wanted the same telecom portfolio in the reformulated UPA government. He is reported to have caused a loss of ₹ 51,000 crore to the government. The CAG has estimated the loss to be ₹ 1,76,000 crore. Can this have been without a motive or other consideration?

According to (Thakurta, 2009) on 10 January, 2008, the Department of Telecommunications (DoT) announced on its website that telecom licences would be awarded on a first-come first-served basis to those who applied along with the fee by that afternoon. Six licences were awarded to relatively unknown companies, including some from the real estate sector having little experience in telecom. The price fixed at ₹ 1,651 crore was based on a price discovery in a spectrum auction in June 2001. At that time the number of subscribers in India of mobile phones was a mere 4 million while by 2008 the number had climbed to more than 350 million and the profitability profile had transformed. So, naturally valuations ought to have been substantially higher. India had become the fastest growing market in the world so that other companies were willing to pay a lot more than the amount fixed.

Indeed, one of the successful companies sold 45 per cent equity to Etisalat of the UAE for ₹ 4,100 crore making its enterprise valuation at ₹ 9,400 crore even though it hardly had any assets of any kind. Similarly, Unitech sold 60 per cent equity to Telenor of Norway for ₹ 6,120 crore giving the venture a valuation of around ₹ 10,000 crore. Thus, the companies that were allotted a spectrum of 4.4 MHz each made a huge killing due to the generosity of the minister. Why this favour at the expense of the national exchequer?

Everything that transpired in this case was strange and the new government was forced to order a CBI enquiry into the matter. Since the CBI is under the purview of the PM, it must have had his approval. But the PM's stand was unclear because he also expressed confidence in his minister and did not ask for his resignation in spite of the massive furore in Parliament. He became a prisoner of coalition politics since he could ill-afford the displeasure of DMK on whose continued support he depended for his survival. The moot question is whether it is worth being in power under such conditions? Alternatively, could the PM have tested waters by asking Mr. Raja to go and called the bluff of DMK whether it would withdraw from the government? The PM's standing would have gone up either way. He was in a win-win situation but did not take the plunge. In his own language he is risk averse and does not wish to rock the boat any way. What then is the difference between him and those who seek power by any means?

These examples of political corruption represent the tip of the iceberg. However, what they demonstrate is that the decline of Indian politics is irreversible with even the supposedly honest leadership having to compromise and accept the tainted leaders and the crooked businessmen. Representation of the people by such leaders is then a mirage. No matter what laws or rules are framed, say, against defection, taking money from the rich or declaring assets to fight elections — corruption amongst the political class has only increased. In fact, as argued in Kumar (1999) defection takes place first in the mind and then the actual act occurs. Today the political class, which is only fighting for power and money can do anything, legal or illegal for the sake of power. In this no-holds barred situation what is defection?

7.4 Flight of Capital and Machinations Abroad

A part of the savings out of black incomes is spirited abroad, at a guess 20 per cent. It is not easy to take money abroad and invest it safely, so small fries keep their money in the country. However, when the BCCI Bank failed in England in 1991, many small businessmen were also reported to have lost money. So, even some small sums are taken out. Big businessmen, politicians and those in the executive who play big time are the ones who take big

amounts abroad to escape detection and also as a part of a risk minimisation strategy. They are like the colonialists who drained wealth from India before independence and left it poor.

There are "tax havens" which are characterised by secrecy and low taxes. They enable money to be kept away from the prying eyes of the government. Prior to 1991, it was difficult to take foreign exchange out of the country, so it was good to have accounts abroad to meet expenses there. Post-1991, it has become easy to take money out but when it comes to illegal earnings it is still desirable to keep some of it out as has been done by Mr. Koda (and others).

The best known tax haven is Switzerland but there are supposed to be 77 tax havens. Some of these are listed (*see* Table 8.4) by the Tax Justice Network. Indians have kept their money in many of these places. So, estimating how much may be stashed in Switzerland (difficult at the best of times) can only give a partial picture of the wealth of Indian rich held abroad. Recently, the Swiss banks have been in trouble in the USA since the government there tightened the screws on UBS, the biggest Swiss bank. It forced UBS to reveal the names of 4,500 US citizens who hold accounts with it and also made it pay a fine of $750 million for past wrong doing. UBS has also promised that it would not assist any of its clients in future to evade taxes.

Table 8.4

List of Some Tax Havens

1. **Albania:** Tax rate between 7% to 10% and taxes may be managed via banking arrangements.
2. **Andorra*:** Near France and well known as a tax haven.
3. **Anguilla***
4. **Antigua and Barbuda***
5. **Aruba***
6. **Austria**
7. **Bahamas*:** No taxes on capital gains, corporate earnings, personal income, sales, inheritance, or dividends. Just 2% tax / year on property ownership.
8. **Bahrain***
9. **Bermuda**
10. **British Virgin Islands***
11. **Cayman Islands**: No income tax, no inheritance tax. Zero per cent tax. Some VAT and hotel tax, etc. Property prices are low and much cheaper than in London.
12. **Costa Rica:** Income tax is only charged on income earned in Costa Rica, with international income being exempt. Migration to Costa Rica is not difficult
13. **Cyprus:** An island in the Mediterranean which is half Greek and half Turkish. The two sides do not get along and that is why things are unsettled and lot of manipulation is possible.
14. **Dominica***

(Contd. . .)

Table 8.4 *(. . . contd)*

15. **Dubai**
16. **Commonwealth of Dominica**. Distinct from the Dominican Republic. No capital gains tax.
17. **Dominican Republic**: There is some conflicting news that it is not a tax haven.
18. **Gibraltar***
19. **Hong Kong**
20. **Ireland**
21. **Isle of Man***: Many tax haven companies are to be established here.
22. **Jersey***: To live here one has to show 5 million pounds in the bank.
23. **Liberia***: Well-known for being a Flag of Convenience.
24. **Liechtenstein**
25. **Malaysia**
26. **Maldives***
27. **Malta**
28. **Marshall Islands***
29. **Mauritius:** Permanent residents who can invest $ 5,00,000 are welcomed.
30. **Nauru***
31. **Netherland Antilles***
32. **The Dutch Antilles:** These include St Eustatius, Saba, and Saint Maarten, and in a separate group Curacao and Bonaire. Previously Aruba was also included.
33. **New Zealand:** Provides situations for a tax-efficient arrangement.
34. **Niue***: Situated in the Pacific
35. **Panama***
36. **Samoa*** Or Western Samoa.
37. **Seychelles***
38. **Singapore**
39. **St Kitts**
40. **The Republic of Seychelles**
41. **St Lucia***
42. **St Kitts and Nevis*** Or "The Principality of St. Christopher and Nevis"
43. **St Vincent and the Grenadines*** Or "The Republic of St. Vincent"
44. **Switzerland**
45. **US Virgin Islands***: Includes St Croix, St Thomas, and St John.
46. **Vanuatu***: Tax merely 5%.

Source: Tax Justice Network website.

Notes:

1. Many Central European Nations offer tax concessions and are used to cycle illegal funds.
2. For small nations with little production, it is advantageous to earn even little sums from large volume financial transactions.
3. *Implies low tax rates applicable in those places.

The Indian government has not been successful in getting the names of its citizens who hold accounts in Swiss banks. This is not surprising since the Indian government is not too keen to get the names as that may open a Pandora's Box implicating many of the ruling elite. Perhaps, it was a ploy to

give time to the Indians holding accounts in Switzerland to shift their money out of that country. Swiss banks have opened channels to shift money to their subsidiaries in other tax havens. Even if the money is not shifted out, it can be laundered in such a way that its source cannot be easily traced.

Shell companies are used to hide the money trail. Many rich Indians also have their proxies in other countries to manage their illegal money and channelise their funds. Funds are transferred through havala, which maintains secrecy or through under- and over-invoicing of trade, which is difficult to track (Kumar, 1999 and Baker, 2005). Thus, unless the tax havens and the financial companies operating there are willing to help, it is difficult to track someone's secret funds. In the recent US case, funds were tracked due to the dogged perseverance of the IRS — actually a lawyer and an agent — and the courts which threatened UBS with takeover unless it came clean (Kumar, 2009a). IRS systematically pursued people who were repeatedly travelling to Switzerland and back. Some of them turned out to be the agents of UBS soliciting funds from the rich and helping them avoid taxes. The IRS also applied psychological pressure on those holding accounts with UBS so that they came forward to reveal their wrong doings. In other words, prosecution was based on hard and systematic work of a few honest people in their system. In contrast, in India cases are repeatedly and deliberately spoiled so as to let the powerful escape (as described in the cases of Rathore and Reliance discussed above).

Liechtenstein, a small principality in Europe is a known tax haven. One disgruntled banker, Mr. Kliebe of LGT Bank based in Liechtenstein, sold a CD containing data of all bank accounts in that bank to the German government and it started prosecuting its citizens whose name figured in the list. It offered data to the French, British and the US governments and they also launched prosecution of their citizens in the list. Data was also offered to the Indian government in 2007 but little interest was shown in the matter for a year and a half till it was compelled to ask for the list because a case was filed in the Supreme Court and it had to respond. The PMO did not respond to the RTI queries on the matter. But this provided enough time to take money out and manipulate so that little has come of it whereas in other countries on the basis of the same data, rapid progress has been made.

This highlights the difference in the nature of the state in India and in the advanced countries. In India, due to the involvement of the Triad, there is no desire on the part of the ruling elite to pursue the cases because it would be axing its own feet and also opening a Pandora's box with a large part of the ruling elite exposed leading to complications for the government which it can ill-afford (as happened in the case of Mr. Narasimha Rao who pursued the Jain Havala case and got embroiled in various court cases).

Under the pressure of the SC, it was revealed that cases had been launched against Mr. Hasan Ali, the Pune horse racing punter and his associates. A tax demand of ₹ 70,000 crore was raised against them for their havala operations that had come to light in 2007. The government initially claimed that it could not crack the codes in their hard disc and so it has not been able to proceed further. Again inaction was a ploy to enable these people to doctor the accounts. Where there was supposed to be $8 billion in the accounts, nothing was left by 2010 when the case was again activated under SC pressure. This should be expected since the money was not that of Mr. Ali and associates and family but of powerful members of the Triad at the regional and national levels and any revelation of the actual beneficiaries would have been damaging to the ruling elites.

In brief, repeatedly, the ruling elite which constitutes the Triad, has not been interested in solving the problem of black income generation by pursuing cases against its members. It takes limited action only as a part of the politics of blackmail to keep its wayward members in line or to prevent any of them from upsetting the apple cart.

7.5 Media and Accountability

Much has been expected from the media since it can act as a watchdog of society. Unfortunately, it has increasingly become a part of the nexus between money power and illegality. It does not systematically pursue cases to their logical end but repeatedly switches to new ones. As discussed in Kumar (1999), during elections the media has been known to take money from candidates to give them coverage and for not giving a negative picture. This has been revealed in a big way in the 2009 national elections with the amount of money involved rising exponentially over time. The phenomenon of "Paid News" has hit the headlines in a big way recently. The nexus between the politicians, the businessmen and the media is a continuing affair and not just a phenomenon at the time of elections. Scoops and planting of stories are the result of such a nexus.

In the case of business journalism, the link between businesses and the journalists has been commented on. Editorials are often influenced by money and the interests of the owners. Stories may be planted to push a business interest, articles written to support pro-business policies or even to manipulate the stock markets and so on. There are freebies at press conferences. Businessmen are known to pick up the tabs for air tickets, vacations, purchase of house, land allotment or the parties thrown by influential journalists. Apparently, retainers are given and junkets arranged for the family. While some of this may not have the sanction of the media company, with the surfacing of the phenomenon of "paid news", there is official sanction to

the nexus. This constitutes direct monetary inducement while till the 1980s, the pressure was indirect through threat of withdrawal of advertising or difficulties in getting newsprint.

Till the early 1990s, there were powerful and ethical editors who stood against the pressures of managers, politicians, businessmen and the executive, thus providing journalists with autonomy to pursue news fearlessly. This has been eroded due to the general decline in society and the readiness of these individuals to be manipulated, all in order to rise rapidly and in a short span of time. For every journalist who stands firm, there are tens of others who are willing to do the bidding of the owners. Now, the media barons have either themselves donned the mantle of editorship or they control their editors closely. The public also has little choice in the face of concerted push by the business community and the media barons.

The media in India appears to be very active and alert and therefore gives the impression of acting as a check against wrong doing. No doubt, it continues to expose wrong doing in public life. Why then is illegality increasing so rapidly in society and in media? That is because the media has become a part of the system and, therefore, at critical junctures it goes soft on issues. On the plea of "objectivity", "fairness" and the need to present the various points of view, it often leaves the public confused. The country's elite has understood how to co-opt it. The journalists are feted, wined and dined, given immediate access both for getting work done and for scoops and passing on news. The journalists are given a lot of importance as advisors. Those in power have managed to partly neutralise media's influence by reducing its credibility.

The rise of TV journalism in a big way since the early 1990s gave rise to the phenomenon of news bytes, short attention span of viewers, diversion from serious news to programmes largely based on crime, entertainment, sex and violence. The role of this media appears to be to maximise profits by delivering audiences to advertisers by attracting the largest possible audience. Consequently, a serious or a socially relevant programme which may not get enough advertisements is considered to be less desirable for the channel. The audiences do not discriminate between a good and a bad programme because they are themselves alienated and their lives anyway grim, so they want escape rather than serious content. In brief, in spite of a vibrant media in India its effectiveness has perhaps declined over time.

8. Possible Remedies

The black economy is holding back the nation, so any serious attempt to tackle it would result in a large national dividend. The above analysis suggests that the cause of the black economy is not narrowly technical and that is why it continues to grow in spite of the hundreds of steps that have been taken to

tackle it in the past 50 years. There have been more than 40 committees (such as GOI, 1956 and GOI, 1971) that have gone into the different aspects of black economy and given thousands of suggestions to check its growth.

Some of the suggestions have been implemented, like, demonetisation, voluntary disclosure, payment by cheque, anti-defection law and citizens' charter. The myriad steps have not only not helped curb the menace but have often fuelled it because they have added to the complexity of the laws or turned people into habitual law breakers. The cause of the growing illegality lies in the political economy of the intensifying conflict amongst the elite sections for cornering larger economic gains for themselves. The black economy helps them make incomes over and above what they can make legally. In a sense it is a breach of contract amongst themselves, aggravating the conflict.

Unfortunately, some of the steps implemented have not only been inadequate since the political will has been lacking, but they have actually further encouraged the generation of black incomes, like the Voluntary Disclosure Schemes (*see* Kumar, 1999). Reduction in tax rates recommended by the various Committees that have studied the problem in the past 60 years have not helped and according to Singh (1973) this is unlikely to help.

There has been a lack of analytical clarity. As argued above, black income generation thrives on the "Triad" of corrupt businessmen, politicians and the executive. No simple-minded technical suggestions can disrupt this nexus which exists to rule (people such as Bellary brothers, Kodas, Ambanis, Rathores, Dinakarans, Lt Gen Prakash) and earn illegal incomes, They will try to do everything to prevent their interest from being hurt. They only want to keep up the pretence of taking steps to curb black income generation to keep confusing the public.

The credibility of the administration and system of justice has to be restored and the causes of alienation of the individual addressed. The sense of social justice of people that has been eroded has to be revived. These require basic attitudinal changes in the nation and have little to do with the formal written down Constitution, which is blamed by some people. Once the basics are set right, much can be accomplished within the framework of even the present Constitution. It is better to do what is possible today and if the Constitution needs an amendment that can be done when that stage is reached. An attempt to fundamentally change the Constitution would only embroil the nation in one more futile exercise.

The problems of governance and administration are:

(a) second order problems to the attitudinal changes needed,
(b) a consequence of the growing black economy, and
(c) not merely technical ones.

Mere setting up of commissions to suggest technical changes, like downsize the government, increasing the salaries of civil servants, hire people on contract, go in for citizen's charters or greater use of IT would hardly help since the issues are not merely technical. Often the Committees have suggested technical remedies, which have been incremental in nature and hence unable to tackle the black economy, a systemic problem. Often suggestions have been ad hoc in nature and, therefore, failed. They may possibly work as a part of an overall package. Worse, ad-hocism has discredited some of these suggestions and possibly pre-empted them from being tried later.

Specific technical suggestions will not work because of the widespread failure of governance. If most things were functioning in the routine way the few things that were not working could be taken care of by fine tuning. When the failure is pervasive then mere tinkering will not do. Generalised causes have to be sought and remedies to these systemic failures implemented. It is in this spirit that some suggestions are made below based on the analysis of the systemic failures (for more details, *see* Kumar, 1999 and Kumar, 1994a):

- First, to tackle the black economy, the "Triad" has to be dismantled. Its functioning is based on secrecy and non-transparency in the system. Hence, the most important step has to be the "Right to Information". This would make the politicians and the executive accountable and their functioning transparent so that unlike at present, they cannot subvert the law deliberately.
- Second, political parties need to function democratically. Many leaders of today come up without serving the people and take over parties from leaders who are their relations. They often only represent the interests of the upper crust of society. Parties and electoral constituencies are being passed like property from one relative to the next.
- Third, there is a need for electoral reforms so that genuine representatives of the people enter the legislature (not purchasable by vested interests). State funding of elections will not help since it only gives additional funds to the corrupt. Citizens' groups, which can present an independent record of the performance of the candidates before elections, will enable voters to be better informed to make their choice of their representatives.

  Audit of accounts of parties and Lok Pal, among others will hardly help in India. Accounts are easily manipulated. Who will prevent the Lok Pal from getting corrupted? If two former Chief Justices of India and Justice Ramaswamy could be in the dock and the Chief Justice of the Punjab High Court had to take the steps he had to against his fellow judges, what

is the chance that the highest authority will not be corrupted? After the initial euphoria, have the CVC and CEC managed to curb malpractices?

- Fourth, reform of the Judiciary is required. Cases have to be speeded up and procedures simplified. The judiciary and other branches of the executive has to be made accountable and freed from its links with the vested interests.
- Fifth, businesses have to be made accountable and transparent. Genuinely independent directors are needed on the Board of the Companies to act as public watchdogs. Chartered Accountants have to be made accountable through evolving new norms.

  Direct taxes need simplification by elimination of concessions and deductions. Taxation of business income should be based on gross profit and not net profit. Internal indirect taxes should be levied only on final luxury products. Estate duty, gift tax, property and wealth taxes should be revived to unearth black incomes.
- Finally, no law is worth the paper it is written on if it is not implemented. Political will is then a pre-requisite, which means strengthening democracy and that requires strong movements on the above mentioned issues.

9. Conclusion: Reinforcing Disruption in Society

The above analysis suggests that the black economy aggravates every feature of the disruption of society that India inherited in 1947 — the loss of dynamism, the decline of the leadership, institutional decay and the growing alienation and cynicism all around. In turn, it is these features of independent India that have encouraged the rapid rise of black economy. The implication is that colonial disruption and the black economy have mutually reinforced each other in India.

If there were any chances of overcoming the disruption, the rapid growth of the black economy has stymied it. It has spread and generalised illegality in every walk of life, spreading cynicism and frustration among the people, so that they are willing to live with it rather than fight it. The various elements of change — politics, education, social work and media are all compromised to various degrees. Above all, trust has broken down in society and every one has come under suspicion leading to an increase in transaction costs and inefficiency. It has bred short termism and individualism leading to a narrow self-centred perspective, which marginalises the idea of the nation.

The black economy arises due to the desire of both businesses for greater profits and of the individuals to gain extra incomes over and above what they can make legally. Since it involves a subversion of policies, the implication is that there is a lack of consensus over policies. The black economy

often results in a zero sum game with one group trying to gain at the expense of the other. While the marginalised groups lose in major ways due to the existence of a significant black economy, the ruling elite think they gain but they also lose from the breakdown of systems and the increasing dysfunctionality of the state. If the economy was larger by a factor of say, six, the profits would have been even higher by, say, a factor of 10. Hence, in a sense the elite are the biggest losers. They do not see it because they only focus on individual gains but not on the collective loss. They fail to understand that as a part of the collective they lose far more than any individual gains they make.

The black economy has thwarted development by making policies fail. It became the cause of the failure of the path of democratic and equitable growth attempted by the country up to the end of the 1980s. It strengthened the vested interests and truncated democracy so that it facilitated the switch to the undemocratic path of "growth at any cost" which marginalises the majority. This new strategy gives legitimately to the vested interests who earlier obtained these profits illegally through the black economy. This has not meant the demise of the black economy as the increasing number of scams suggest but its further propagation due to the liberalised environment, reduction of government regulations and the growing capacity of vested interests to manipulate the levers of power.

The black economy (like, termites) is eating into the innards of society with influential sections — businessmen, politicians, bureaucrats, lawyers, doctors, teachers, etc. — increasingly coming under its grip. The most disciplined section of society, the defence forces are buckling under its pressures. If army intelligence is so weak that they cannot catch their own top brass committing illegality, can we be sure that they will catch the enemy — what happened in Kargil? There is a lack of accountability and tolerance of illegality by the top brass (who should know better). If this has become routine, the situation is far worse than what the public gets to know. Similar arguments would also hold for the judiciary.

In the case of DGP Rathore, the help received by him from the entire system suggests that he is not the only one. He obviously made himself useful (to commit illegality) to the political class and his bosses who overlooked the serious charges and misdemeanor that he committed. Don't these people also stand implicated? All these show that the entire ruling elite — businessmen, politicians and the executive — are involved in the promotion of illegality of various kinds.

Society needs laws to function and illegality (black economy) implies subversion of social functioning — its degradation and its inability to achieve its goals. The ruling elite, which is involved in this illegality and propagates it, needs to tackle it in its own self-interest if it is to stand up to

global forces. The solution of the problem requires a long-run view and that is why the narrowly conceived technical solutions suggested and implemented in the past 60 years have failed to check the growing rot.

There is a lack of political will that needs to be generated through movements. We put up speed breakers on roads to slow down traffic when it is supposed to move fast. This creates a contradiction in terms and causes inefficiency. But this has become acceptable since the elite do not voluntarily follow road rules, resulting in accidents. The lesson is that unless people voluntarily obey traffic rules, the problem cannot be solved, thus leaving the society helpless. The tragedy is the fight against the black economy has got politicised and discredited. Those claiming to represent the forces of social justice are seen as the ones most corrupt. Due to the existence of the all pervasive black economy, the country is trapped in a tremendously cynical politics weakening the very idea of the nation hence making the fight against colonial disruption almost impossible.

In brief, the most important economic, social and political issue before the country is the proliferating black economy and there is no option but to counter it (and corruption in high places). It has subverted politics, divided people and led to growing criminalisation, environmental degradation, unemployment, fiscal crisis, technological backwardness and growing inequity. The Indian reality cannot be understood either in bits (say, by analysing industry or poverty) or wholly (say, looking at macro policies) if the black economy is excluded from the analysis. All variables, macro (say, savings or exports) or micro (say, literacy or health status) are impacted by the black economy and need to be corrected for a proper economic analysis. It is for the citizens to decide whether to fight it or join in.

Chapter IX

Inadequacies in Infrastructure and Continuing Disruption: Impact on the Societal Dynamics

1. Introduction: Infrastructure Gap at Independence

In 1947, the country had very poor physical and social infrastructure. This was because of a lack of investment during the British rule, since they made the minimum effort that was required to control the territory and extract its surplus. For instance, they needed a few schools and colleges that would be able to produce the clerks to run their Raj for them. Hence, unlike in their own country where they invested in school education for all and in research facilities, they invested only the minimum required in India. They were not interested in technical education or research and development (R&D), which would have led to India's development. Technology, when needed, could simply be imported from Britain with profit. Take another example. The British were interested in the railways to the extent that they needed to transport raw materials to the ports and bring in manufactured goods into the country or for the movement of supplies and personnel needed to rule the country. They built the railways to the various hill stations where they needed to retreat in the summer months even if it was not profitable to run these services. So, the development was only an incidental factor for setting up the railways in India.

Table 9.1 shows the gap in select infrastructure between India and a developed country, like UK in 1950-51. The gap is a result of the missed investment over the two centuries of colonial rule. At current prices it would be in trillions of dollars. It also gives the backlog of investment in India, which independent India needed to put in if it had aspirations of catching up with western modernity. This figure also gives a measure of the impact of colonisation on the country and why it was so backward at the time of independence.

Table 9.1

Infrastructure Gap between India and UK (1951 and 2001)

Electric Power Consumption (KWH per Capita)

Year	*Great Britain*[1]	*India*[2]	*Difference in Kwh*	*Difference in Mw per Capita*	*Population of India*[3]	*Electricity Generation Gap in Mw to reach UK Level*
1951	1034.0	17.8	1016.16	0.00028	36,10,88,000	1,01,923.11
2001	6176.7	366.1	5810.56	0.00161	1,02,87,37,000	5,82,812.08

Sources: 1. Ministry of Fuel and Power Statistical Digest, UK (Digest of United Kingdom energy statistics 2010: Long-term trends)

Also available at the website: www.statistics.gov.uk

2. CSO, Govt of India.

3. Census of India.

Note: Difference in Mw per Capita=Difference in Kwh / 3600000

Railway Density per Thousand Square km

Year	*Great Britain*[1]	*India*[2]	*Difference*	*Land Area in Sq. km*[3]	*Total Gap in km*
1951	134.07	16.30	117.76	32,87,260	3,87,107.7
2001	137.72	19.09	118.63	32,87,260	3,89,967.7

Sources: 1. British Railway and Statistical Abstract (www.railwaysarchive.co.uk)

Also available at the website: www.statistics.gov.uk

2. Railway Ministry, Govt of India.

3. Survey of India.

Road Density per Thousand Square km

Year	*Great Britain*[1]	*India*[2]	*Difference*	*Land Area in Sq. km*[3]	*Total Gap in km*
1951	1280.19	121.664	1158.53	32,87,260	38,08,389.33
2001	1685.75	751.241	934.51	32,87,260	30,71,977.34

Sources: 1. British Road Federation, Road Statistics and Abstract (www.rra.org.uk)

Also available at the website: www.statistics.gov.uk

2. Ministry of Road Transport and Highways, Govt. of India.

3. Survey of India.

Literacy in Percent

Year	*Great Britain*[1]	*India*[2]	*Difference*	*Population of India*[3]	*No. Needing Literacy to reach UK's Level*
1951	90	16.67	73.33	36,10,88,000	26,47,85,830
2001	100	65.38	34.62	1,02,87,37,000	35,61,48,749

(Sources:1. British Statistics of Education (www.education.gov.uk)

Also available at the website: www.statistics.gov.uk

2. Economic Survey of India.

3. Survey of India.

Table 9.1 presents the gap between the two nations in 2001 and shows that the initial backlog was not eliminated even fifty years later. It becomes clear that in spite of 50 years of development in the areas listed, India could not catch up with the UK of 1950-51. It needs to be remembered that Great Britain is not the most advanced country today. Additionally, in 1951 some of the infrastructure in Great Britain had been affected by the destruction caused during the Second World War, so its infrastructure was not what it could have been. So, the gap in 1951 could have been worse than the data in Table 9.1 indicates. In effect, achieving western modernity, the goal of the ruling elite, requires that India first catch up with what existed in the UK 60 years back and then think of reaching their current levels. If the present trend prevails, catching up may be a hundred-year project and require far more investments than India has been able to put together. The attempt to catch up has also become a source of growing disparities — to modernise some areas (urban), others (rural) have been neglected.

Of course, the blame for not being able to catch up rapidly cannot be put entirely on the former colonial power and has to be shared by the leadership of free India. Its inability to raise more resources for development, its choice of wrong policies and lack of proper perspective and above all the poor governance and the black economy which led to waste of huge amounts of resources and missed opportunities (*see* Kumar, 2005b), all contributed to this mess. As discussed in Chapter VIII, the black economy led to policy failure and continued backwardness in the country.

Be that as it may, the impact of the large gap in infrastructure has led not only to backwardness but also to losses to the nation due to missed opportunities in production and productivity. Large numbers of people have remained in poverty over this entire period. If India is to modernise it has to think differently and not just think of aping the advanced countries. Modern infrastructure is very expensive, requires massive resources, capital and energy. For instance, India may have to go for public transport rather than privatised transportation. If the leadership assumes that there is only one kind of modernity then it may be caught chasing a receding target. The leadership needs to understand this and think of a different kind of modernity.

The leadership needed to think differently at the time of independence so that India could have moved towards holistic development suited to the local needs, as Gandhi had suggested. However, the elite was both in a hurry and enamoured of western modernity, so it borrowed the model wholesale, including the mistakes made in the West during the course of their development. Any rethink or attempt at learning from the mistakes, perhaps would have slowed down the catching-up with the West, which the elite was not willing to consider. The elite lacked the intellectual capability and the independence to think of modifying the Western models so that India did not

copy the mistakes or adjusted the models to Indian requirements, much less developing its own models (*see* Chapter V, Section 1 also).

For instance, along its path of development the West has faced tremendous environmental pollution and alienation in society. The Indian elite have not developed a critique of these trends so as to modify the path so that it would neither be alienating nor highly polluting. Indian values based on conservation of the environment, seen as backward by the elite, have been completely given up. The problem was compounded by the elite's loss of value of ideas (Chapter VII, Section 3.4). The borrowed path of development, in the absence of reflection, came packaged with its own technology. For instance, it led to concentrated urbanisation with its focus on urban agglomerates and their requirements of huge investments (see later in this chapter).

Investment opportunities once missed cannot be easily made up later. Investments lead to expansion of opportunities. So, higher levels of it lead to greater development. To overcome the gap, a lagging nation has to put in special efforts, and this can have social, economic and political ramifications. There is no easy way out and especially if the leadership is confused or not democratic in nature. Mechanical copying to try to jump stages of development also creates problems since the organic path of social development is not followed. Social development can lag economic advancement so that the people may go out of tune with the needs of economic development, resulting in social tensions. The West developed its institutions over a few hundred years and still faces problems, while India is attempting achieve it in a few decades. Neither a nation's lagging behind others nor its catching up can be mechanical processes since the social aspects are important.

This chapter looks at the developments in the physical and social infrastructure since independence. The former consists of roads, ports, railways, energy, including electricity, water and irrigation and communication, including telecommunications. The latter consists of education and health. While health is discussed in this chapter, education is discussed in Chapter XI. Education itself can be divided between primary, secondary, higher and research. The importance of research cannot be emphasised enough since it holds the key to knowledge generation that is central to globalisation today. Science and technology is important but research in social sciences and fine arts, etc. can only be ignored at the expense of the well-being of the nation.

2. Infrastructure Development in India since 1950

Infrastructure is essential for any development and especially if a nation is to achieve rapid growth as India has been attempting do since independence. It is expensive to create infrastructure and that is why it has to be not only

properly planned but the choice of the development path should be such that one can have the maximum growth with the least amount of physical infrastructure. For instance, minimisation of transport needs would result in reduced energy requirements and less cost for the same level of final and useful output and human welfare. Having unnecessary amount of roads and vehicles do not automatically result in better human welfare. Similarly, decaying inner cities do not lead to better welfare of the community.

Social infrastructure like education and health is on a different plane. There has to be more education so that the productivity of individuals goes up, and that then enables the individuals and society to achieve higher growth and human welfare. It may be argued by some that many of the educated are unemployed due to lack of jobs or they may leave the country for greener pastures and, therefore, lead to waste of social resources. However, one of the tasks of education and the proper choice of the development path should also be to see that educated individuals find the work they need, either the system creating them or the individuals themselves being able to create them based on their needs.

Not only should individuals have access to education but it has to be of high quality and appropriate to the long run needs of society. In turn, this requires society to be able to define itself. Any random kind of education would not do. It must be non-alienating and be able to give the citizens a perspective on their society and make them critical thinkers.

How does society develop a view of itself? This has to be an endogenous process, wherein it generates appropriate ideas about its long run based on its present conditions of existence. It is not possible to borrow them from other's experience and base one's own development on that. It is not like in the case of science which can be borrowed because it works the same way for all. In the case of technology, its appropriate choice depends on the social structures of that society. One size fits all often results in problems. Finally, even how good science is done depends on the social structures.

As argued earlier (*see* Chapter II, Section 5), mechanical borrowing of technology or solutions from other societies results in non–solutions, which cause more problems. The integrated character of solutions is absolutely essential for society to benefit in the long run and not run into more problems. This requires society to value ideas generated internally and not to depend on borrowed ideas. An outward-oriented elite enamoured of copying and defining that to be progress may often ignore the ideas being generated internally. This can only be a recipe for suppressing dynamism and facing continuing problems.

2.1 Social Infrastructure and Market Failure

Health is absolutely essential for life and productivity of individuals, so, one needs the best of it. However, there may be different routes to achieving it. In a non-integrated development path, health problems may be caused by growing air and water pollution so that more and more of health infrastructure may be required at increasing cost without improvement in the overall health status. Even if longevity increases, older people may be confronted with growing health problems and loneliness, and may be left unhappy. This points to the possibility of a vicious cycle of higher health costs and increasing pollution without social welfare improving.

Do increases in longevity and lower mortality reflect better health and higher welfare and, therefore, a triumph of modern medicine? Three factors are working simultaneously to produce the observed outcomes. First, technology (like surgery and instrumentation) has improved and there is a far more detailed understanding of the human body. Thus, our micro understanding of disease and the functioning of the body and its building blocks (cells and genes) has greatly improved. Secondly, due to the extreme complexity involved, we are unable to integrate this growing body of knowledge into a macro understanding of the body, disease and the working of nature. Finally, the development path is resulting in new problems coming in the way of improving the quality of life, like lifestyle diseases, growing psychological problems and ill-effects of smoking. While the first is leading to improvements, the other two are having a contrary effect and what we observe is the net effect of these two trends. People are materially more prosperous and living longer because of the first aspect of modern life but it is unclear whether they are happier given the other two trends. In an alternative system which takes care of the latter two, perhaps things could be even better. But what if the three aspects are interlinked by our understanding of life (say, Man as homo-economicus) and are a package? Anyhow, even under the current system of thought, there is a need to optimise through the minimisation of the latter two with the help of regulations and the maximisation of the first aspect.

The dilemma of modern development may be understood by asking whether 'having more doctors and hospitals is a sign of good health or of bad health'. The answer would depend on society's perspective. If it thinks piecemeal, it would try to maximise the health infrastructure, like in the USA which has a high-cost medical infrastructure and where society spends a large amount (17% of GDP) on it but it is unclear whether the system is better than in other advanced societies (like Canada) where for less expenditure the system seems to work better. There is enormous pressure in the US to change the system but equally there are vested interests that have amassed

enormous wealth through the current system and do not want it to change. This suggests that when a system is put into place vested interests develop around it which resist rational change. The rapid privatisation of health and education in India since 1991 is also pushing us it in the same direction of high-cost education and health and building up of vested interests. These vested interests would like it to remain that way.

In the case of health, optimality requires that society assign an important role to preventive health. For instance, rather than allow cigarette companies to propagate smoking and then have to treat large numbers of people with cancer, one could minimise smoking to reduce the damage it causes to health. This requires stringent checks on targeting of children and the impressionable by the tobacco lobby. For instance, showing smoking in films and other media as a macho or cool activity, which affects the impressionable minds, needs to be stopped. In India, there is a crying need for sanitation and prevention because that affects the poor the most and they are the least able to take care of themselves. Further, the marginalised who depended on local and traditional medicines find they cannot depend on them for cure since the new diseases are not recognised by these systems. In other words, optimality requires prevention to be given the highest priority by the policy makers but marketisation works to counter it since there is no profit for the companies in prevention while there is huge profit in ill health. As discussed in Chapter V, Section 4.5, there is profit to be made through waste and here it is social waste. Markets clearly fail to deliver infrastructure optimally to society.

2.2 Physical Infrastructure, Scale Economies and Public Sector

Often, infrastructure has scale economies (for a given technology within a range of production) associated with it as in the case of, say, transportation, telecommunication and energy. As these industries have grown in size, costs and prices have fallen, thereby leading to further expansion of demand and increase in market size as has been the case in mobile telephony. Often this is confused with privatisation and the opening up of the sector to private players. It needs to be remembered that the public sector was not allowed to expand into mobile telephony since the government asked it to focus on spreading the landline network to remote areas. It was not allowed to lower prices in the metros or for long distance calls but use the surplus thus generated to subsidise the expansion and the losses resulting from having to serve the remote areas at reasonable cost. There was a holistic vision underlying the communication policy and catering to the markets was not a priority.

As argued earlier (*see* Chapter V, Section 5.1), the public sector was created to serve multiple social purposes and infrastructure industries was an

important part of that scenario. Further, due to the scale economies there is a tendency for natural monopolies to emerge, which results in sub-optimality so that government intervention becomes necessary in these industries (Tresch, 1981). This is so because subsidies are required for achieving optimality. For these reasons, many of the infrastructure industries and utilities came up in the public sector all over the world. In India's case, due to the disruption under the British rule, infrastructure was lacking and huge investments were required. But, private Indian capital (which had been discouraged by the British rule) was small in size and could not undertake the scale of investment required. Finally, since it also lacked technology, it could not undertake these projects. Thus, it fell on the government to create the infrastructure. As pointed out in Chapter III, even the Bombay Plan drafted by the nationalist capitalists in 1944 had envisaged such a role for the government and the public sector. It was understood that without this, development would be slow. There were no ideological hang ups regarding the public sector at that time.

Perceptions about the public sector have changed due to its failures and poor governance (*see* Kumar, 1999). Its losses and the indifferent and overbearing attitude its employees display towards the public have led to disenchantment with it, which has facilitated the push for privatisation. The global strategic changes since the mid–1970s have created a climate against the public sector by reinforcing the ideological factors (*see* Chapter III). The private sector works on a no-holds barred basis and has worked hard to subvert the public sector through corrupting the political, the bureaucratic and the public sector managerial class. Inducements have been on offer to sacrifice the interests of the public sector to benefit private businesses. For instance, many politicians have been close to certain businessmen, bureaucrats after retirement have got plush jobs with the private sector and the public sector managers have switched sides to the private competitors. Ideologically, a failed public sector is the ideal advertisement for the private sector because in comparison it looks good and no one would call for its nationalisation since by implication, it would also become inefficient.

If infrastructure is left to the private sector, in the present situation it would go for monopolistic / oligopolistic profit, resulting in high-cost infrastructure and scale economies would not be used. Can a poor country afford it? Privatisation of infrastructure is also resulting in segmentation of available infrastructure. Good quality, high–cost, privately provided infrastructure for the well-off but poor quality, low-cost one from the public sector for the majority. This is already visible in, say, banking, transportation and energy sectors.

The point is, disruption of society is reflected in the pursuit of privatisation of infrastructure even though it is not the optimum solution for a largely

poor country. Rather than reform the public sector and make it efficient, which the ruling elite can do since it is the cause of the inefficiency and there is no other basic problem, the ruling elite is going for a sub-optimal solution even from its own point of view and definitely for those who are marginal. This is happening because the ruling elite is blinkered regarding the long-run interests of the nation since its consciousness is dented.

3. Urbanisation in India: Irrationalities Abound

The interest of the colonial powers was not India's development but the extraction of its surplus in various ways. For this it needed to establish control all over the country. At the periphery of the then existing cities, Civil Lines were created where the rulers could live and administer. Thus, most of the cities emerged as only administrative centres and trading posts rather than as production and trading centres as was the case in the advanced countries. Ports were important for trade with the outside world but more specifically for the colonial power to capture the markets. So, the big cities that emerged during the colonial rule were co-terminus with the ports and administrative centres.

The situation started changing after independence when industrialisation began in earnest. The process of urbanisation grew stronger with the emergence of more cities and the growth of big cities (Tables 9.2 to 9.4). The share of urban population increased rapidly, especially in big urban centres (Class I and II cities). Government gave a lot of subsidies and concessions for setting up industries. These included, cheap land, water and electricity at concessional rates, concessions in taxes, concessional loans and credit, etc. This not only promoted industrialisation but also urbanisation and led to a growing rural-urban differentiation (Table 9.5).

Table 9.2

Urban Population — Proportion and Growth

Census	*No. of Towns/ Urban Agglomerations*	*% of urban population to total population*	*Annual exponential growth rate of urban population*
1941	2,250	13.86	2.77
1951	2,843	17.29	3.47
1961	2,365	17.97	2.34
1971	2,590	19.91	3.21
1981	3,378	23.34	3.83
1991	3,768	25.72	3.09
2001	4,368	27.72	2.73

(Source: Sivaramakrishnan, Kundu and Singh, 2005.)

Table 9.3

Distribution of Urban Population across Classes of Cities

Census	*Class I*	*Class II*	*Class III*	*Class IV*	*Class V*	*Class VI*
1951	44.63	9.96	15.72	13.63	12.97	3.09
	(5.02)	(2.10)	(3.07)	(2.01)	(1.97)	(3.31)
1961	51.42	11.23	16.94	12.77	6.87	0.77
	(3.72)	(3.50)	(3.05)	(1.65)	(-4.05)	(-11.62)
1971	57.24	10.92	16.01	10.94	4.45	0.44
	(4.29)	(2.93)	(2.65)	(1.67)	(-1.14)	(-2.32)
1981	60.32	11.63	14.30	9.47	3.66	0.62
	(4.34)	(4.43)	(2.69)	(2.43)	(1.64)	(5.05)
1991	64.89	10.96	13.33	7.89	2.62	0.31
	(3.84)	(2.38)	(2.26)	(1.02)	(-0.13)	(-2.45)
2001	68.67	9.67	12.23	6.84	2.36	0.23
	(3.42)	(1.76)	(2.15)	(1.64)	(1.93)	(0.80)

(Source: Sivaramakrishnan, Kundu and Singh, 2005.)

Note: Figures in brackets are the annual exponential growth rate of urban population in the different city classes.

Classification of Cities.

The Population Census has a six fold classification of cities:

Class I: Greater than 1,00,000 population

Class II: 50,000 — 1,00,000 population

Class III: 20,000 — 50,000 population

Class IV: 10,000 — 20,000 population

Class V: 5,000 — 10,000 population

Class VI: less than 5,000 population

Table 9.4

Million plus Cities in India

1951 Census	*1971 Census*	*1981 Census*	*1991 Census*	*2001 Census*
Bombay (Mumbai), Calcutta (Kolkata), Delhi, Madras (Chennai), Hyderabad	Bombay (Mumbai), Calcutta (Kolkata), Delhi, Madras (Chennai), Hyderabad, Bangalore, Ahmedabad, Pune, Kanpur	Bombay (Mumbai), Calcutta (Kolkata), Delhi, Madras (Chennai), Hyderabad Bangalore, Ahmedabad, Pune, Kanpur, Jaipur, Lucknow, Nagpur	Bombay (Mumbai), Calcutta (Kolkata), Delhi, Madras (Chennai), Hyderabad, Bangalore, Ahmedabad, Pune, Kanpur, Jaipur, Lucknow, Nagpur, Patna, Indore, Vadodara, Bhopal, Coimbatore, Ludhiana, Kochi, Vishakhapatnam, Varanasi, Madurai, Surat	Bombay (Mumbai), Calcutta (Kolkata), Delhi, Madras (Chennai), Hyderabad, Bangalore, Ahmedabad, Pune, Kanpur, Jaipur, Lucknow, Nagpur, Patna, Indore, Vadodara, Bhopal, Coimbatore, Ludhiana, Kochi, Vishakhapatnam, Varanasi, Madurai, Surat, Meerut, Nashik, Jabalpur, Jamshedpur, Asansol, Dhanbad, Faridabad, Allahabad, Amritsar, Vijayawada, Rajkot

(Source: Census Reports, various years.)

Table 9.5

Rural Urban Differentiation 1960 to 2004

	RURAL						*URBAN*					
	Percentage of households living in			*Percentage of households with Electricity connection*	*Percentage of households with access to drinking water**	*Percentage of households with access to toilet facilities*	*Percentage of households living in*			*Percentage of households with Electricity connection*	*Percentage of households with access to drinking water**	*Percentage of households with access to toilet facilities*
	Pucca Houses	*Semi-Pucca Houses*	*Kutcha Houses*				*Pucca Houses*	*Semi-Pucca Houses*	*Kutcha Houses*			
NSS 15th round and 18th round	6.6[$]	66[$]	27.4[$]	1	57.2	3.8	18.3[$]	63.3[$]	18.4[$]	27.9	2.6	54
NSS 28th round	18.42	32.41	49.17	6.55	69.79	6.99	64.52	19.64	15.74	63.48	11.08	66.81
1981 Census	22.53	36.93	40.55	14.69	75.06	—	64.7	21.8	13.5	62.51	26.5	—
NSS 38th round	—	—	—	14.87		8.3	—	—	—	63.75		43.05
1991 Census	30.59	35.65	33.76	30.54	81.38	9.48	72.75	17.69	9.56	75.78	55.54	23.7
NSS 50th round	29.2	38.1	32.7	—		—	70.7	19.5	9.9	—		—

(Contd. . .)

Table 9.5 *(. . . contd)*

	RURAL						URBAN					
	Percentage of households living in			Percentage of households with Electricity connection	Percentage of households with access to drinking water*	Percentage of households with access to toilet facilities	Percentage of households living in			Percentage of households with Electricity connection	Percentage of households with access to drinking water*	Percentage of households with access to toilet facilities
	Pucca Houses	Semi-Pucca Houses	Kutcha Houses				Pucca Houses	Semi-Pucca Houses	Kutcha Houses			
2001 census	—	—	—	43.53	90.01	21.92	—	—	—	87.58	73.23	73.72
NSS 60th round	48.2	32.8	17.2	5.5	—	—	85.5	10.2	3.5	92.2	—	—

(Source: Central Statistical Organisation, Statistical Abstract – India, various years.)

Note:

*Taps, tubewells and handpumps.

$ The classification of houses in the 15th and the 18th rounds of the NSS was 'excellent', 'fairly good' and 'bad and dilapidated'.

NSS 15th round (July 1959 – June 1960) and NSS 18th round (February 1963 – January 1964)

NSS 28th round (October 1973 – June 1974)

NSS 38th round (January 1983 – December 1983)

NSS 50th round (July 1993 – June 1994)

NSS 60th round (Jan – June 2004)

3.1 Rising Tide of Urbanisation

According to data (UNFPA 2008), in 1900, roughly 15% of the world's population lived in urban areas but by 1950 this figure had risen to 30% and further to 49% by 2000. At present, more than half of the world's population (3.3 billion people) lives in urban areas. The figure is expected to touch 5 billion by 2030. In India, the urban population, which was less than 30 per cent as per the 2001 census, is expected to go up to 40.7 per cent by 2030. In India, economic development has been accompanied by urbanisation with migration from the rural to the urban areas as a major contributory factor. Further, rural population living at the periphery of expanding towns, has been absorbed by the city, like in the case of Delhi. In fact, Delhi has a number of villages in its midst with inadequate urban services, high population densities and unplanned concrete jungles.

Urbanisation in India has grown (Table 9.2) since independence. Only the 1961 census showed stagnation due to a change in the definition of urban centres. 3,378 centres were classified as urban by the 1981 census. Urbanisation has been concentrated all through the period as the distribution of population among the different classes of cities shows. Table 9.3 shows that the share of urban population in Class I cities has consistently grown from 44.6% in 1951 to 68.7% in 2001. This is partly the result of the smaller cities growing and joining the ranks of the Class I cities with a population of a million and above (Tables 9.3 and 4). In 1951, there were only 5 such cities in India. Their number has grown continuously from 9 in 1971, to 12 in 1981, and 23 in 1991. According to the 2001 census, 35 cities come under this category.

3.2 Concentrated Urbanisation and Diseconomies of Scale

Data suggests that there is concentrated urbanisation, namely, larger centres becoming bigger and bigger. This has brought with it huge challenges, which its glitter is unable to hide — poverty, unsanitary conditions and slums. It has to provide productive employment and services like, piped water supply, sewerage, energy, roads and transportation, without which urban life is not possible. All this is highly capital and energy intensive. So, urban life is expensive and the poor can hardly afford it without subsidy. In a poor society, government subsidy can only be limited. So in the developing world, there is a duality with the well-off living in posh areas receiving heavy subsidies in various forms while the poor live in terrible conditions. For instance, New Delhi and South Delhi are the show pieces of the country maintained with a large subsidy from the Centre. The posh areas of Mumbai (say, Nariman Point or Worli) and Bangalore (say, MG Road area) even

with subsidy from the state governments leave a lot to be desired. It is only the cities in the rich countries that have been able to provide most of their citizens a civilised existence.

The central problem is that urban services are expensive everywhere, and the bigger the city the more expensive it gets because of the high land values and the large volume of services that have to be provided, often over long distances. For Delhi, water is being brought from Haridwar and Tehri and now the plan is to bring it from Himachal. Electricity is transmitted from power stations hundreds and thousands of kilometres away. A huge network of public transport with broad roads, flyovers, railways, etc. is necessary not only in the city but also in its neighbourhood (with Delhi stretching over almost 100 km).

According to estimates, huge investments would be required to expand the existing infrastructure facilities and create new ones. The Central Public Health Environment and Engineering Organisation (CPHEEO) has estimated that ₹ 1,72,900 crore would be required for water supply and sanitation in urban areas by 2021. A study by Rail India Technical and Engineering Service (RITES) calculates that ₹ 2,07,000 crore would be required for urban transportation just in Class I cities over the next 20 years (Savage and Dasgupta 2006).

The argument for concentrated urbanisation is that there are scale economies in utilities and, therefore, these could be made available cheaper. However, if capacity is reached, this is not applicable and costs rise steeply. Further, the situation changes if the basic parameters change. For instance, if the location of the source of electricity and / or water moves farther away, then costs rise. In the case of garbage disposal as the nearby land-fill sites are exhausted, new ones farther away have to be found and this raises costs. In case of transportation, road capacity has been exhausted so that traffic in the centre of towns has slowed to a crawl (in rush hour, speeds in Mumbai are 7 kmph and in Delhi 20 kmph) and traffic is forever stuck in traffic jams increasing the fuel costs and travel time. Often open grounds in the city, its periphery or along highways and rail tracks, have become vast toilets creating utter filth and stink. The ruling elite has got immunised to such sights and does not respond to it.

The miserable condition of living of the average citizen in Mumbai is brought out by TOI (2009):

> "... an average 81 people share a single toilet. In some places it rises to an eye-watering 273. Even the lowest average is still 58. . . . The UN estimates that 600 million people or 55 per cent of Indians still defecate outside. . . . In March, Mumbai's municipal authorities said there were 77,526 toilets in slum areas and 64,157 more were needed. Work is in progress on

> only 6,050. . . . Yet the UN's Mumbai Human Development Report 2009, . . . points out that even where public toilets exist, most have no running water, drainage or electricity, making them unhygienic and unusable. . . . Women and girls often wait all day until it is dark. . . . Poor sanitation and the illnesses it causes cost the Indian economy 12 billion rupees (255 million dollars) a year."

Concentrated urbanisation has proved to be expensive and put most services beyond the paying capacity (as measured by the per capita income) of most of the citizens. So, either these services have to be given free or at a nominal charge, involving subsidies. The well-off who could afford to pay for these services either directly or through paying taxes — property tax, wealth tax and income tax — resort to the black economy to evade them. Instead of paying what is due from them, for the benefit they receive, these people get the advantage of low wages of the workers as well as subsidies from the government for their lifestyle.

In brief, while individual components of urban infrastructure may show scale economies, the urban systems taken together, including the cost of health due to pollution, time taken to travel and fulfil daily needs and the decline in governance in a highly corrupt system, point to diseconomies of scale for large cities.

Under the circumstances, concentrated urbanisation is not a solution for the problems of the developing world since they are both short of energy and capital. The need is for dispersed urbanisation where the needs of transportation would be less, energy and water needs can be met from nearby resources, land-fill sites would be close by, etc. Unfortunately, there has been little planning for urbanisation. Cities have mostly grown haphazardly and faster than was planned for. Say, for Delhi, where massive resources have been spent, the Master plans drawn up in 1961, 1981 and 2001 have been overtaken by events. Other cities are even worse off. The National Capital Region (NCR), planned for a long time, to decongest Delhi, has not worked because of lack of proper planning. Delhi has now turned into an uncontrolled urban sprawl.

If property taxes, the main revenue source for municipalities that govern urban areas, were to be collected at the current market valuation of the properties then the cities would have the resources to maintain their services at reasonable levels. Unfortunately, due to the black economy and the clout of the well-off, the laws favour the property-owning classes and they pay paltry sums as taxes, which cannot maintain the services at a reasonable level. However, all this makes it easier to hold underdeveloped or vacant property so that supply declines and land prices rise resulting in speculation and further shortage of developed or developable urban land (Kumar, 1987b).

The suggestion for levying property taxes at the current market prices of property faces stiff resistance from the propertied classes. They shoot from the shoulders of the middle classes by arguing that they would be adversely affected by the high taxes. But they do not point to the dynamic aspect of property taxes, namely, this proposal is likely to lower the profitability of holding real estate so that the speculative element in prices would decline and the prices would come closer to their true values. The critics of the proposal also argue that the elderly (say, widows) who are asset rich but income poor would not be able to pay the higher tax and would have to sell and move. First, this is in any case taking place today with the elderly relocating to areas having lower land value and lower taxes. In the process they get large savings out of the liquidation of the asset, which can yield them substantial income. Secondly, migration occurs all the time for economic reasons. Poor people from rural India have been migrating in millions every year in search of better opportunities but the critics do not comment on their plight or argue for a change in their economic conditions. In fact, they move penniless and in dire straits unlike the few rich who may have to move because of taxes. Thirdly, why should the asset-rich get a large subsidy for their lifestyle while the poor are grudged small subsidies? Finally, if a statement is to be made against displacement then it should be for all and not just a few and the call should be for a system change.

3.3 Urbanisable Land, Speculation and SEZs as Enclave Development

Shortage of urbanisable land is laid not at the doors of speculation and manipulation by land mafias but the Urban Land Ceiling Act (ULCA). This was promulgated in the 1970s to free up the large pockets of land with the wealthy so that the other sections of society could get land for housing. Similarly, the Rent Control Acts were designed to control the unbridled rise in rents and enable the non-propertied to live with some protection from the steep rise in rents that the landlords were demanding. Both these Acts have been mired in controversy because the government did not anticipate the corruption that developed around these Acts and the fact that the propertied class is powerful and could stall the implementation in a variety of ways, including legal recourse.

Land and building mafia with the connivance of the executive (police and the bureaucracy) and the local politician / *dada* used these provisions to get rich quick. At the periphery of the cities, similar conjuncture of interests led by the local land developers used agricultural land to settle the mass of poor people flooding the cities and having nowhere to go through large scale vio-

lation of zoning laws or through encroachment of public lands. The local leaders had a central role in this since they used these poor migrants as vote banks promising them urban facilities each election. At one time it was roads, the next time piped water, then regularisation of electricity connections, then regularisation of their status, etc. An example of this is the development in East Delhi (trans-Yamuna colonies) and the rise of certain powerful Congress leaders. These leaders became so powerful that even when implicated in the 1984 Sikh riots, the government did not dare to act against them.

The recent controversy about the setting up of the SEZs in the country is partially linked with the nature of urbanisation and the desire to circumvent the Land Ceiling Act. Cash-rich corporates are using this to grab prime land near major urban centres like Delhi, Mumbai, Kolkata and Chennai, or near important intersections of major highways that are coming up. This is not new. This has been going on for a long time. For instance, developers like Ansals, DLF and Unitech got wind of the alignment of the National Highway 8 from Delhi to Jaipur and bought up large pockets of agricultural land on both sides in Haryana and started colonising it and that is what is referred to as the new Gurgaon. On the back of the profits earned on such speculative activity, the owner of DLF at one point became the richest Indian (as the share prices of his company dropped he lost that status but that is another matter). The politicians and bureaucrats also made a killing in the process. The farmers whose land was acquired got a good price for that time but not the benefit that they could have ultimately got.

Similar issues of who gains from land acquisition have come up in the context of land being acquired for SEZs with the farmers losing out to businessmen. The struggles in Nandigram, Singur, Raigadh, Dadri and so on are a testimony to the anger amongst the farmers (Kumar, 2008c).

The SEZs are ostensibly for promotion of exports and are patterned after the Chinese success in this regard and whose best known example is in Pudong. However, the Chinese have discontinued this experiment due to the many problems it creates. In India, this was first proposed in 2000. the Act was finally passed in 2005 and implementation began in 2006. Within a short time several hundred SEZs, both small and big, were proposed and approved. The large ones proposed were the size of a city of 30,000 acres and more. Irregularities were reported in acquisition with farmers forced to part with land in various ways, like underhand deals, pressure through local panchayat leaders, etc. In a referendum, the local people voted against the SEZ just outside Mumbai. In Goa, due to public pressure the policy was reversed by the state government.

The governments, central and states, with their pro-business attitude, allotted huge parcels of land without any concern for the displacement it

would lead to. Displacement of entire communities (villages and forest dwellers) causes a whole life style to be shattered and forces many people to migrate to alien urban areas to live in miserable conditions. Take for example, the Kondh tribals of Niyamgiri who consider the hills to be mined for bauxite by Vedanta as their god and are resisting its acquisition and demolition. In another instance, Vedanta needed only 100 acres of land to set up a University. But it obtained 10,000 acres of land leading to unnecessary displacement. In Singur, where the Tatas needed only a few hundred acres of land for their auto factory they obtained 1,200 acres. Further, barren land was available only a few kilometres away but they insisted on obtaining prime agricultural land. Finally, in West Bengal, there is a lot of land of closed units and that could have been acquired without any displacement. But, the Tatas preferred the Singur land, which would have displaced over ten thousand people. These examples point to the utter disregard of the misery of the poor as far as the businessmen and the state apparatus are concerned.

That there is massive illegality involved in these new projects has been brought out by the Saxena Committee Report on Niyamgiri project of Vedanta. Most laws were violated by the company in connivance with the state machinery. The local population and activists have been pointing to all this for several years but their pleas have fallen on deaf ears. No wonder the credibility of the state apparatus is non-existent and people resort to violence.

That these projects are meant for land development became clear from the fact that the developer could use 65% of the land allotted for real estate development. Under public pressure this percentage was reduced. The prime motive was to develop land in prime areas for setting up enclaves — a new kind of urbanisation. These are designed to be restricted zones with gated colonies (as is already happening in various parts of the country) where the elite could live in a European life style without the poor intruding on their consciousness. The Japanese had earlier proposed this in the early 1990s as a condition for bringing in investment. They needed such enclaves to house their personnel who could not live in the squalid conditions of Indian cities. Now, the Indian elite having become rich wishes to insulate itself from poverty.

The government arguing in favour of SEZs said that they would lead to massive increase in employment, investment and output. What it never mentioned was how much would be the loss of past investment, displacement of labour and traditional output (*see*, Kumar, 2008c). The government forgot to mention that the capital-labour ratio could be hundred times higher than in the existing activity that would be destroyed / displaced. Consequently, there was likely to be massive loss of employment and the net output increase was not likely to be large. The policy was indeed short-sighted and has needlessly created a controversy and much social unrest which the country could

have done without. After all, even without this policy, according to the government, the economy had found ways of growing at 9%. So, why initiate policies which could only further marginalise the marginals?

That the SEZs were a part of the ongoing land speculation was exposed when during the global crisis land values fell sharply and interest in setting up SEZs waned. Some of the SEZs were cancelled while some others are going slow. So, why not make the entire nation an SEZ, ask critics. The short answer is that massive resources can only be poured into small areas and not over the entire land mass. Be that as it may, the SEZ policy is another example of irrational policies resulting in long-run problems for the nation.

3.4 Urbanisation, Differentiation and Privatisation

As more resources are poured into concentrated urbanisation, there is less for the poorer sections of these metros, even less for the smaller town and almost nothing for the rural areas. Thus, population and businesses flood into the big urban metropolises, which have more jobs on offer and better facilities. For instance, Delhi may have one hour of power cut occasionally while small towns may have 8 hours of power cuts daily and rural areas may get electricity only intermittently. Similarly, Delhi roads have a few potholes and mostly when it rains but roads in smaller towns may be perpetually potholed while those in the rural areas may mostly be unpaved. The growing rural-urban differentiation (*see* Tables 9.5 to 9.7) is leading to increased migration from rural areas.

Table 9.6

Percentage of Households Having Access to Toilet Facilities

	Percentage of households		
	Rural	*Urban*	*Total*
NSS 15th round (July 1959-June 1960) and 18th round (Feb 1963-Jan 1964)	3.8	54	13.7
NSS 28th round (October 1973- June 1974)	6.99	66.81	19.58
1981 Census			
NSS 38th round (January 1983- December 1983)	8.3	43.05	--
NSS 44th round(July 1988- June 1989)	10.75	68.89	--
1991 Census			
NSS 51st round (July 1994- June 1995)	9.48	63.85	23.7
2001 Census			
NSS 60th round (Jan 2004 - June 2004)	21.92	73.72	36.41

(*Source*: CSO, Statistical Abstract — India, Various Issues)

Table 9.7

Percentage of Households using Different Sources of Water

Percentage of Households with Piped Water

NSS 15th round (July 1959-June 1960) and 18th round (Feb 1963-Jan 1964)	*Inside premises*	*Outside premises*
Urban	26.6	30.6
Rural	0.4	2.2
Total	5.6	7.8

Percentage of Households Having Drinking Water from Tap and Tubewell

NSS 28th round (October 1973- June 1974)	*For the exclusive use of households*	*Shared with other households in the same building*	*Community use*
Urban	18.14	19.69	31.96
Rural	1.51	0.7	8.87
Total	5.01	4.7	13.73

Sources of Drinking Water

NSS 38th round (January 1983-December 1983)	*Tap*	*Tubewell*	*Handpumps and Pucca Wells*	*Others*	
Urban	70.5	2.52	24.6	2.38	
Rural	8.72	4.17	75.47	11.64	
1981 Census	*Tap*	*Well*	*Tubewell / Handpump*	*Tank / Pond*	*Others*
Urban	63.24	20.4	11.82	0.86	3.68
Rural	10.29	61.63	16.21	3.38	8.49
Total	23.03	51.71	15.16	2.77	7.33
NSS 44th round (July 1988-June 1989)	*Tap*	*Well*	*Tubewell / Handpump*	*Tank / Pond*	*Others*
Urban	72.11	9.17	17.2	0.28	1.24
Rural	15.47	39.12	39.1	2.19	4.12
1991 Census	*Tap*	*Well*	*Tubewell / Handpump*	*Tank / pond*	*others*
Urban	65.06	15.91	16.32	0.31	2.4
Rural	20.64	38.01	34.9	1.69	4.76
Total	32.26	32.23	30.04	1.33	4.14
2001 Census	*Tap*	*Well*	*Tubewell / Handpump*	*Tank / Pond*	*Others*
Urban	68.66	7.71	21.35	0.31	1.97
Rural	24.29	22.22	48.94	1.28	3.27
Total	36.7	18.17	41.22	1.01	2.9

(Source: CSO, Statistical Abstract — India, various issues.)

The huge investments in big cities generates jobs while its paucity in small towns and villages leads to growing unemployment there. This becomes another cause of the growing migration. Such migration is not a result of any scale economies but due to desperation and in spite of the atrocious living conditions for the poor in cities with rising disease, flooding during rains and insecure housing due to encroachment. Formal housing is so expensive in most cities that all that the poor (without any savings) can afford is makeshift shelters or live under the open sky. Even then they fall into the grip of the local goons, corrupt officialdom and crooked politicians.

Take the case of the newly constructed Metro in Delhi, which is rapidly being copied by every big city in the country. It is a very expensive solution to a huge problem created by concentrated urbanisation. Without it the city traffic is choking. But, it is sucking in tens of thousands of crores of investment, which is leading to shortage of investment resources for the smaller towns and rural areas and creating a differential between the big towns and the others. This is then leading to more migration as explained above and to more concentrated urbanisation. With decentralised urbanisation this would not happen but hardly anyone is thinking of that.

Since most of the urban services have till recently been provided by the public sector, their poor quality has discredited it and led to pressures for privatisation. The World Bank has pushed this through providing structural adjustment loans. The central and state governments, under the influence of the neo-liberal policies, have also been pushing for privatisation via the new idea of public private partnership (PPP) on the plea of lack of resources.

What has the private sector's record in this regard has been till now? It has corrupted the public authorities to subvert policies (like in housing and land allotment by the DDA) and catered to the demand for the well-off sections. In the name of the poor it has diverted to the well-off the housing it was supposed to provide to the Economically Weaker Sections (EWS). In new Gurgaon, just outside Delhi, a huge posh township has come up in the last 20 years and this is entirely the effort of the private developers. In this area, water and electricity are short and sewage, garbage collection and public transportation are almost non-existent. Thus, it has become an expensive city with each working family member requiring a private vehicle to move around. There are huge traffic jams in spite of wide roads. Open grounds stink due to lack of garbage and sewage disposal and life is hell for the poor. It has the malls, the gleaming towers and the huge population of cars but a missing civic life. It is hardly an example of ideal urban living though considered a posh suburb of Delhi.

Privatisation of bus services in Delhi is another example of such failure. The Blueline services were introduced but they have not only not coped with the growing transportation demand but have created massive problems of violation of road rules due to their reckless driving and large number of road accidents and deaths. They have been phased out and now replaced with public sector buses. The experience with the call centre private taxis plying on Delhi roads has also been disastrous. Privatisation of electricity distribution in Delhi has fared better with less of breakdowns. However, this is at the cost of inflated bills and constant demand to raise electricity tariffs. The choice between the public sector services and their private provision seems to be between the devil and the deep sea.

The growth of the private sector in urban centres has been accompanied by increased criminalisation around land and property. Urban land has been prized property since its prices have risen far faster than of any other asset class. There is massive corruption spurred by the developers, builders and brokers in league with the political and bureaucratic class. Privatisation is only formalising this by legalising it but corruption and criminalisation are only growing by leaps and bounds.

3.5 Need for a More Rational Approach towards Urbanisation and Land Use

India's urban population is about 28 per cent of the total population (2001 census), but the absolute number is sizable — 285 million. In the previous sections it was argued that concentrated urbanisation is not suited to the Indian requirements and is leading to waste of resources and to diseconomies of scale. A majority of the urbanites are living a most uncivilised life but the ruling elite is apparently unconcerned since its priority is itself. This is resulting in shortage of resources for the rural areas and growing inequities of various kinds. This irrational pattern is continuing in spite of the obvious disadvantages because of (a) the large subsidies that are provided to the cities and their well-off sections, and (b) the assurance of better infrastructure to businesses which then tend to locate there. All this results from the drive of the elite to achieve Western modernity.

The way things have moved, it is as if India as a whole does not have the will to lead a more civilised life. Perhaps, today, India along with much of South Asia and Sub-Saharan Africa has the worst living standards. It is not that with a more rational policy we cannot live better with clean air, water and less of pollution. Much of this is possible through changing the consciousness, habits and inculcating a civic sense in the people (like in the case of cleanliness and sanitation). India has not learnt from the mistakes of the

development path followed by the West (for instance, the country needs public transport and not private vehicles) but is copying blindly. In a sense, it is not shortage of resources that plagues the nation but the will to do better.

Living better cannot be compartmentalised with some living well while others live in squalor. Urban areas are contiguous and interconnected so that enclaves of prosperity are affected by the poor conditions in the rest of the city. Disease, rodents, odour and polluted air affect everyone even when they live in enclaves. Clearly, neither what was going on before 1991 nor what is sought to be implemented after that is a rational long-term policy for India. So, we need to break out of blind copying of Western modernity.

4. Transportation

The pattern of development based on copying Western modernity has required massive transportation. In fact, modern concentrated production in large factories needs efficient transportation as a prerequisite. Not only raw materials have to be moved but production too, has to be distributed and sold through large networks of trade and transport. So, it generates a massive need for roads, railways and ports. The First Plan itself focused on infrastructure to enable industrialisation to take place. Table 9.1 shows the increase in infrastructure availability in India between 1951 and 2001. Table 9.8 shows the expansion of the railways between 1950 and 2008. This can be taken as a proxy for the increase in the transportation network in the country. Table 9.9 shows the situation of transportation of all forms in 2007. Table 9.10 shows the expansion of road coverage across states between 1981 and 2001. It points to the massive disparities that exist across states with Kerala leading and poor states like Bihar and Rajasthan lagging. Surprisingly, advanced states like Gujarat and Haryana are also laggards. Of course, the mountainous states show the lowest coverage with J&K lying at the bottom.

Transportation of modern kind needs formal commercial energy, unlike the traditional one which depended on animal and human draught power. Thus, the need for commercial energy has risen rapidly in India but there has been shortage of it. The railway network set up by the British has been useful but it has had to be expanded substantially (Table 9.8). A large road network has also been created under pressure from the automobile industries, especially post-1991. A network of airports and a large fleet of aircraft have been created at a heavy cost. There is a large element of ad hocism in all this due to pressures from vested interests and lack of a vision of an integrated transport plan so that inefficiencies have crept in.

Table 9.8

Operations of Indian Railways

1	*1950-51*	*1960-61*	*1970-71*	*1980-81*	*1990-91*	*2000-01*	*2004-05*	*2005-06*	*2006-07*	*2007-08P*
	2	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
1. Route kilometers (000's) Electrified	0.4	0.8	3.7	5.4	10.0	14.9	17.5	17.9	17.8	na
Total	53.6	56.2	59.8	61.2	62.4	63.0	63.5	63.3	63.3	na
2. Originating traffic (million tonnes)										
Revenue Earning (₹ crore)	73.2	119.8	167.9	195.9	318.4	473.5	602.1[a]	666.51[a]	727.75[a]	793.89[a]
Total Traffic	93.0	156.2	196.5	220.0	341.4	504.2	626.18[a]	682.29[a]	744.56[a]	804.11[a]
3. Goods carried (billion tonne km.)										
Revenue Earning (₹ crore)	37.6	72.3	110.7	147.7	235.8	312.4	407.4	439.5	481.0	521.4
Total Traffic	44.1	87.7	127.4	158.5	242.7	315.5	411.3	441.6	483.4	523.2
4. Earnings from goods carried (₹ crore)	139.3	280.5	600.7	1,550.9	8,247.0	23,045.4	30,489.2	35,534.7	41,073.2	46,425.5
5. Average Lead: all goods traffic (km)	470.0	561.0	648.0	720.0	711.0	626.0	657.0	647.0	649.0	657.0
6. Average rate / tonne km. (paise)	3.2	3.9	5.4	10.5	35.0	73.8	74.8	80.8	85.4	89.0
7. Passengers Originating (million)[b]	1,284.0	1,594.0	2,431.0	3,613.0	3,858.0	4,833.0	5,378.0	5,725.0	6,219.0	6,524.0
8. Passengers kilometers (billion)	66.5	77.7	118.1	208.6	295.6	457.0	576.0	616.0	695.0	770.0
9. Passengers Earnings (₹ crore)	98.2	131.6	295.5	827.5	3,144.7	10,515.1	14,113.7	15,126.9	17,224.6	19,844.2[c]
10. Average lead: passenger traffic (km)	51.8	48.7	48.6	57.7	76.6	94.6	107.0	107.5	111.7	118.0
11. Average rate per passenger-Kilometre (paise) FFH	1.5	1.7	2.5	4.0	10.6	22.9	24.4	24.5	24.7	25.7

(Source: Economic Survey and Ministry of Railways.)

Note:

P: Provisional.

a: Excluding Konkan Railways Corporation Limited Loading.

b: Excluding Metro Railway.

c: Includes Metro Railway / Kolkata's earnings.

Table 9.9

India: Road Transport at a Glance, 2007

Core Road Performance Indicators						
Road Network			*Year*	*Source*	*Average*	*Range*
Length of Total Roads	km	3,516,452	2004	NHAI		
Total Main Roads	km	666,452	2006	NHAI		
Urban Roads						
Classified Rural Roads	km	1,730,000	2006	NHAI		
Other Rural Roads	km	920,000	2006	NHAI		
Other Urban Roads	km	200,000	2006	NHAI		
Length of Paved Roads	km	1,604,000	2004	UNESCAP		
Total Length of Paved Roads	%	47.3%	2004	WDI	47%	23.7%-81%
Roads in "good and regular" (fair) condition	%	74.3%	1995-99	WB 1		
Road Network Asset Value	million $	N/A				
Total	million $	49,813	2002	WB		
Classified Rural Roads						
Paved Roads of 2-lane roads	%	34%	2000	RDP		
Paved Roads of 4-lane roads	%	1%	2000	RDP		
Total Road Length						
Highways	km	58,000	2002	WB 1		
Road Access			*Year*	*Source*		
Access to All-Season Road	% of Rural Population	61%	2006	PMGSY	55%	39%-85%
Total Number of Motor Vehicles	No.	72,718,000	2004	MORTH 1		
Road Density in terms of Population	road km/1,000 people	3	2006	NHAI/ WDI	2.8	0.6-6.5
Land	road km/1,000 sq km total land	1,115	2006	NHAI/WDI	745.4	53-2.079

(Contd. . .)

Table 9.9 *(. . .contd)*

Road Access			*Year*	*Source*		
Goods Transported Annually by Road	million tons/km-yr					
Goods Transported Annually by Road	% of total freight	65%	2005	MORTH 2		
Passengers Transported Annually by Road	% of total passengers	86.7%	2005	MORTH 2		
Road Finance			*Year*	*Source*		
Annual Road Expenditure (Actual)	million $	211,000	2002	WB 4		
Ratio of Actual to Required Maintenance Expenditure	%	20-57%	1999-2000	WB 1		20%-58%
Annual Road Budget	million $	4,707	FY 2006-07	MOF		
Affordability			*Year*	*Source*		
Average Pump Price for Super Gasoline	$/liter	$1.01	2007	GTZ	0.9	0.68-1.01
Average Pump Price for Diesel Fuel	$/liter	$0.75	2007	GTZ	0.7	0.45-0.75
Motor Fuel Tax						
Gasoline	% of pump price	19-30%	2003	WB 2		
Diesel	% of pump price	8.6-34%	2003	WB 2		
Vehicle Registration Fees	% of vehicle price, one time fee	2-6%	2003	WB 2		
Average Road Tariff for Freight Intercity	$/ton-km	0.015-0.021	2002	WB 3		0.015-0.2
Road Safety and Environment			*Year*	*Source*		
Annual Fatalities in Road Accidents	fatalities / 10,000 vehicles	12.7	2004	MORTH 3	26.6	6-85.6

(Source: Various Annual Reports of Ministry of Road Transport & Highways, Government of India.)

Notes:

NHAI: National Highway Authority of India.

UNESCAP: UN and ESCAP Statistical Yearbooks, which quoted data from Country Statistical Yearbooks.

GOI: GOI Tenth Five Year Plan (2002-2007).

MOF: Ministry of Finance, Union Budget for 2006-07.

(Contd . . .)

Notes: *(. . . contd)*

WB 1:World Bank, India's Transport Sector : The Challenges Ahead, Volumes 1 & 2, 2002.
WB 2:World Bank, India Financing Highways, 2004.
WB 3:World Bank, Pakistan Transport Competiveness Study, 2006.
WB 4:India Financing Highways, Report No.30363-IN, WB SASEI, October 21, 2004, p. 19.
WDI: World Bank World Development Indicators.
RDP: Road Development Plan; Vision 2021, www.nhai.org.
PMGSY: PMGSY Briefing Book, 2006, http://pmgsy.nic.in/downloads/bbook06.pdf
MORTH: Ministry of Road Transport & Highways.
MORTH 1: MORTH, http://morth.nic.in/writereaddata/sublinkimages/table-12458822488.htm.
MORTH 2: MORTH's Annual Report 2006-07: http://morth.nic.in/writereaddata / sublinkimages/Annual_Report_0607_Eng6260486566.pdf
MORTH 3: Sundar Committee on Road Safety and Traffic Management; http://morth.nic.in/writereaddata/sublinkimages/Road_Safety_sundarreport4006852610.pdf
GTZ: http://www.gtz.de/fuelprices.
Average: Average figures for the South Asia region
Range: Range of figures for the South Asia region.

Table 9.10

Per Capita Income, Road Coverage and Human Development Index

		Per Capita Income at Constant (1999-2000) Price			*Ratio of Individual state to all India*		
S. No.	*States/UTs*	*1999-2000*	*2002-2003*	*2005-2006*	*1999-2000*	*2002-2003*	*2005-2006*
		(Rupees)					
1.	Andhra Pradesh	15,507	17,486	21,277	0.98	1.02	1.02
2.	Arunachal Pradesh	14,107	16,119	20,037	0.89	0.94	0.96
3.	Assam	12,269	13,233	14,950	0.77	0.77	0.72
4.	Bihar	5,766	6,634	6,610	0.36	0.39	0.32
5.	Goa	42,296	40,602	47,507	2.67	2.38	2.28
6.	Gujarat	18,864	19,509	26,543	1.19	1.14	1.27
7.	Haryana	21,966	24,676	29,887	1.39	1.45	1.43
8.	Himachal Pradesh	20,806	23,393	27,162	1.31	1.37	1.30
9.	J & K	13,745	14,095		0.87	0.83	0.00
10.	Karnataka	16,758	18,011	21,829	1.06	1.05	1.05
11.	Kerala	19,294	21,699	25,657	1.22	1.27	1.23
12.	Madhya Pradesh	12,384	10,880	12,566	0.78	0.64	0.60
13.	Maharashtra	23,340	23,939	29,085	1.47	1.40	1.39
14.	Manipur	13,260	12,319	17,950	0.84	0.72	0.86

(Contd. . .)

Table 9.10 *(. . .contd)*

		Per Capita Income at Constant (1999-2000) Price			*Ratio of Individual state to all India*		
S. No.	*States/UTs*	*1999-2000*	*2002-2003*	*2005-2006*	*1999-2000*	*2002-2003*	*2005-2006*
		Rupees					
15.	Meghalaya	14,611	16,177	18,274	0.92	0.95	0.88
16.	Mizoram	16,443	18,429	N.A.	1.04	1.08	N.A.
17.	Nagaland	13,819	17,122	N.A.	0.87	1.00	N.A.
18.	Orissa	10,567	10,575	N.A.	0.67	0.62	N.A.
19.	Punjab	25,611	26,955	28,872	1.62	1.58	1.38
20.	Rajasthan	13,477	12,043	15,219	0.85	0.71	0.73
21.	Sikkim	14,890	17,065	20,609	0.85	0.71	0.73
22	Tamil Nadu	19,378	19,628	24,308	1.22	1.15	1.17
23.	Tripura	14,119	17,752	21,231	0.89	1.04	1.02
24.	Uttar Pradesh	9,405	9,657	10,637	0.59	0.57	0.51
25.	West Bengal	15,826	17,515	20,485	1.00	1.03	0.98
26.	Chandigarh	41,386	52,037	67,910	2.61	3.05	3.26
27.	Delhi	38,682	41,216	49,172	2.44	2.41	2.36
28.	Pondicherry	30,865	39,159	36,397	1.95	2.29	1.74
29.	Uttaranchal	13,672	16,639	20,328	0.86	0.97	0.97
30.	Jharkhand	12,747	10,571	14,990	0.80	0.62	0.72
31.	Chhatisgarh	11,758	11,836	16,365	0.74	0.69	0.78
	All India	15,839	17,075	20,858	1.00	1.00	1.00
		State-level Coverage of Roads			*Ratio of State to All India*		
S. No.	*States / UTs*	*1981*	*1991*	*2001*	*1981*	*1991*	*2001*
		Per 100 sq.km.					
1.	Andhra Pradesh	43.38	54.32	64.72	0.96	0.89	0.86
2.	Arunachal Pradesh	8.18	12.77	16.83	0.18	0.21	0.22
3.	Assam	75.33	83.57	87.23	1.67	1.36	1.16
4.	Bihar	48.08	49.12	50.81	1.07	0.80	0.68
5.	Goa	198.14	192.97	224.51	4.39	3.15	3.00
6.	Gujarat	29.63	41.26	46.37	0.66	0.67	0.62
7.	Haryana	52	59.85	63.7	1.15	0.98	0.85
8.	Himachal Pradesh	35.21	45.13	54.23	0.78	0.74	0.72
9.	J & K	5.67	5.9	9.65	0.13	0.10	0.13
10.	Karnataka	57.31	68.57	75.09	1.27	1.12	1.00
11.	Kerala	268.24	348.84	374.92	5.94	5.69	5.00
12.	Madhya Pra.	23.62	31.58	45.13	0.52	0.52	0.60
13.	Maharashtra	57.38	72.07	117.62	1.27	1.18	1.57
14.	Manipur	23.75	29.85	49	0.53	0.49	0.65
15.	Meghalaya	22.49	28.9	37.81	0.50	0.47	0.50
16.	Mizoram	10.9	17.7	22.91	0.24	0.29	0.31

(Contd. . .)

Table 9.10 *(. . .contd)*

S. No.	States / UTs	1981	1991	2001	1981	1991	2001
		Per 100 sq.km.					
17.	Nagaland	35.25	88.98	110.72	0.78	1.45	1.48
18.	Orissa	76.98	125.84	168.72	1.71	2.05	2.25
19.	Punjab	91.18	107.74	127.78	2.02	1.76	1.71
20.	Rajasthan	19.65	35.8	37.89	0.44	0.58	0.51
21.	Sikkim	14.94	22.46	25.85	0.44	0.58	0.51
22.	Tamil Nadu	93.23	151.23	158.78	2.07	2.47	2.12
23.	Tripura	55.92	134.18	140.46	1.24	2.19	1.87
24.	Uttar Pradesh	49.84	68.21	86.77	1.10	1.11	1.16
25.	West Bengal	64.03	69.5	85	1.42	1.13	1.13
26.	A & N Islands	7.9	10.91	15.97	0.18	0.18	0.21
27.	Chandigarh	139.47	1350.88	1537.72	3.09	22.05	20.52
28.	D & N Haveli	44.4	64.15	108.55	0.98	1.05	1.45
29.	Delhi	937.56	1406.14	1792.45	20.77	22.95	23.92
30.	Pondicherry	428.89	511.52	485.86	9.50	8.35	6.48
	All India	45.13	61.27	74.93	1.00	1.00	1.00
		Human Development Index			Ratio of State to All India		
S. No.	States / UTs	1981	1991	2001			
1.	Andhra Pradesh	0.298	0.377	0.416	0.99	0.99	0.88
2.	Arunachal Pradesh	0.242	0.328	N.A.	0.80	0.86	N.A.
3.	Assam	0.272	0.348	0.386	0.90	0.91	0.82
4.	Bihar	0.237	0.308	0.367	0.78	0.81	0.78
5.	Goa	0.445	0.575	N.A.	1.47	1.51	N.A.
6.	Gujarat	0.36	0.431	0.479	1.19	1.13	1.01
7.	Haryana	0.36	0.443	0.509	1.19	1.16	1.08
8.	Himachal Pradesh	0.398	0.469	N.A.	1.32	1.23	N.A.
9.	J & K	0.337	0.402	N.A.	1.12	1.06	N.A.
10.	Karnataka	0.346	0.412	0.478	1.15	1.08	1.01
11.	Kerala	0.5	0.591	0.638	1.66	1.55	1.35
12.	Madhya Pradesh	0.245	0.328	0.394	0.81	0.86	0.83
13.	Maharashtra	0.363	0.452	0.523	1.20	1.19	1.11
14.	Manipur	0.461	0.536	N.A.	1.53	1.41	N.A.
15.	Meghalaya	0.371	0.365	N.A.	1.23	0.96	N.A.
16.	Mizoram	0.411	0.548	N.A.	1.36	1.44	N.A.
17.	Nagaland	0.328	0.486	N.A.	1.09	1.28	N.A.
18.	Orissa	0.267	0.345	0.404	0.88	0.91	0.86
19.	Punjab	0.411	0.475	0.537	1.36	1.25	1.14
20.	Rajasthan	0.256	0.347	0.424	0.85	0.91	0.90
21.	Sikkim	0.342	0.425	N.A.	0.85	0.91	0.90

(Contd. . .)

Table 9.10 *(. . .contd)*

		Human Development Index			*Ratio of State to All India*		
22.	Tamil Nadu	0.343	0.466	0.531	1.14	1.22	1.13
23.	Tripura	0.287	0.389	N.A.	0.95	1.02	N.A.
24.	Uttar Pradesh	0.255	0.314	0.388	0.84	0.82	0.82
25.	West Bengal	0.305	0.404	0.472	1.01	1.06	1.00
26.	A & N Islands	0.394	0.574	N.A.	1.30	1.51	N.A.
27.	Chandigarh	0.55	0.674	N.A.	1.82	1.77	N.A.
28.	Delhi	0.495	0.624	N.A.	1.64	1.64	N.A.
29.	Lakshadweep	0.434	0.532	N.A.	1.44	1.40	N.A.
30.	Pondicherry	0.386	0.571	N.A.	1.28	1.50	N.A.
	All India	0.302	0.381	0.472	1.00	1.00	1.00

Sources: 1. Economic Survey of India, Various Issues. (2.) Directorate of Economics & Statistics of respective State Government(as on 25-11-2007) and for All India- CSO. (3.) Basic Road Statistics of India, 1995-96 and Planning Commission. Planning commission (2002): National Human Development Report, 2001, March.

Notes:

1. Including National and State Highways, major district roads, other district roads and rural roads. Data as on 31st March of the indicated year.
2. The HDI is a composite of variables capturing attainments in three dimensions of Human Development, viz. economic, educational and health. These have been captured by per capita monthly expenditure adjusted for inequality; a combination of literacy rate and intensity of formal education; and a combination of life expectancy at age 1 and Infant mortality rate.
3. For sake of completeness, for some variables used in estimating the indices, the data for small States/UTs have been estimated/assumed following, in general, principles of physical contiguity or similarity in socio-economic or demographic profile.
4. The Gender Disparity Index is estimated as proportion of female attainments to that of male for a common set of variables. The variable used to capture economic attainment is worker population ratio which is different from the variable used to capture economic attainment in the HDI.
5. The HDI for 2001 has been estimated only for a few selected States for which some data is included in the census 2001.

If the ruling elite had clarity of vision it would have optimised this network so as to minimise energy consumption and reduce costs. Thus, rail travel could have concentrated on long and medium distance while road transportation could have concentrated on short haul traffic and air travel used largely for long distance travel and for very high value items. However, under pressure from industries, this optimum mix has not been attempted. Railways were used to subsidise the public sector and the bulk movement of essential goods. This led to losses and poor performance with the blame laid at the doors of the public sector. Corruption made the situation worse. It is in this situation that roads offered an alternative means of more efficient and

assured transportation. High value goods shifted from the railways to road and this led to lower revenues for the railways and increased losses.

Growing corruption in and around the railways aggravated its problem. For instance, Food Corporation of India (FCI), which uses railways to transport large quantities of grain from the producing to the consuming centres or for the purpose of storage, suffered large losses in transportation because of corruption and callousness. Other transporters also suffered from such problems and shifted to road traffic. The consequence of the shift from rail to road has been a rise in energy intensity of the economy and increased import of petroleum products.

Air travel is a luxury in India used by hardly a few per cent of the population. In the last decade it has seen a rapid expansion. It is highly resource-intensive since construction of airports, purchase of aeroplanes and their maintenance are expensive propositions. With the growth of the corporate sector and the professional classes, demand for air travel has expanded. As air travel has become cheaper the gap between air and rail fares has narrowed considerably. So, some of the well-off have shifted from the latter to the former, increasing demand further.

International travel by the elite has also increased sharply as they now travel more for business, vacations, health and educational purposes. With the opening up of the economy, more foreigners are arriving in India for business and as India is getting better known more tourists are being attracted.

Again, as in much else, there is a differentiation in the country. Broadly speaking, while urban transportation has expanded enormously, the rural areas are highly deficient in it. Similarly, in urban areas the elite have good access to transportation while the slum dwellers and the less well-off have to do with a creaking and crumbling public transportation. Instead of an efficient public transportation network in the entire country, resources are wasted. It is not that private transportation is a solution for the elite given the traffic jams in most cities, the lack of parking space and poor quality of roads. Unfortunately, the elite classes are not able to see any of this.

A radical alternative could have been that most people stay close to their place of work and either walk or cycle for most chores (as in many European cities). The lower classes in our cities still cycle and walk to work but over long distances. The point being made is that at present they are being crowded out by the automobile while the non-motorised means of transportation need positive encouragement through specific policies to make people change their preferences. Safety is a key aspect. In India, traffic is undemocratic and the rule of "might is right" rules the roads. Consequently, per lakh kilometre of travel the number of accidents and deaths in India is one of the highest in the world. The largest number of accidents involve the most vul-

nerable — the pedestrians and cyclists — because they are the smallest fish in the pond.

Even though cars are flooding Indian cities, the country has a low car ownership. According to the 2001 census, of India's 192 million households, 83 million have a bicycle, 22 million a motorised two-wheeler and 5 million a private four-wheeled vehicle. Sixty-six million households had none of these vehicles. Thus, only 2.5% of the Indian households had a four-wheeled vehicle and this is big enough to cause problems. In contrast, 79% of households in Canada possessed at least one car or truck or van. 36% had two or more. The tragedy is that even at such low level of ownership of motorised vehicles, India has one of the highest levels of pollution in its cities.

The environmental impact of the rising traffic in cities is visible in the rise in air pollution, which is adversely affecting health and especially of the vulnerable groups — children and the elderly. Due to corruption and low levels of incomes, vehicles are not properly maintained, so that they pollute far more than they need. Those who can ill-afford to maintain a car are buying them due to peer group pressure. Ownership is facilitated since vehicles have become affordable either as cheap second hand cars or through instalment payments over time. Transporters heavily overload their vehicles (and bribe the police) to earn an extra buck and skip maintenance to save on costs. This results in damage to roads and greater pollution. The waste oil and the parts that are replaced are not properly disposed of leading to pollution of land and water by toxic elements. Corruption and lack of consciousness play an important part to propagate this chaotic situation.

In brief, as far as transportation is concerned, it has greatly expanded but in the wrong direction and one that is unsustainable. Private motorised transportation, haulage of goods by road and air travel are both capital- and energy-intensive and definitely not a solution for the vast bulk of the population that is still poor. The automobile and air travel industries are pushing the country in this direction, which ignores the long run interest of the nation and especially of the poor. The development path needs to change with less concentrated urbanisation and production so that transport needs are reduced and energy intensity of the economy reduced.

5. Energy and Associated Environmental Considerations

India uses a variety of energy sources — traditional, conventional and non-conventional. Conventional actually stands for commercial and not traditional. Anyhow, the first category includes bio-mass of various descriptions — wood and agricultural waste. Non-conventional sources are bio-gas, wind, wave power and solar. Conventional sources of energy are electricity, coal and petro products. There has been a shift in the use of energy from

direct coal burning in households and bio-mass to electricity generated from thermal (petroleum, gas, coal and nuclear) and hydel. This has reduced pollution per unit but because of the rising energy intensity in society (Table 5.15 shows the per capita consumption of various forms of energy), and increasing consumption of the well-off, the total consumption of energy has risen sharply and overall levels of pollution have increased substantially. Further, because India is short on crude oil and gas, it has become heavily dependent on their imports with consequences for the BOP and inflation. Since the early part of the decade starting 2000, India has been importing crude oil and exporting refined petroleum products due to surplus refining capacity in the private sector.

Since the 1970s, the BOP crisis have been triggered by the oil shocks and so have been the inflationary bouts (*see* Graph 3.3). Thus, the economy's vulnerability to external shocks is related to the country's energy policy or to a lack of an integrated transport and energy policies. This is another example of the weakness of the national leadership.

While consumption of electricity (Table 5.15) has increased sharply, the use of bio-mass has come down due to changes in farm practices and modernisation. Electricity generation tripled in the 1950s and the 1960s but doubled in the 1970s and the 1980s. The pace has slowed down since the 1990s due to the larger role given to the private sector, which was unable to set up the expected generation capacity. Coal production doubled in the 1980s but rose by 45% in the 1990s and is continuing to rise at this rate subsequently.

Petroleum production increased by 26 times in the 1950s since there was little production in 1950-51 (low base). It rose about 3 times in the 1960s and then 25% in the 1970s, but doubled in the 1980s and the 1990s. Subsequently, its production has slowed down. Consumption of petroleum more than doubled in the 1950s and the 1960s. In the 1970s it rose about 70%, perhaps due to the oil shock in the early 1970s and continued to rise at roughly this rate in the 1980s. In the 1990s, the pace picked up again but slowed down subsequently.

5.1 Energy and Environmental Concerns

There has been large scale denudation of natural forests for producing energy, construction and industrial uses. Mono-culture forests or plantations have come up but this is not an optimal situation. Mafia of timber contractors in connivance with forest officials and local politicians have denuded vast forest lands through indiscriminate felling of trees. They have exploited the forest dwellers and local population for this purpose by offering them inducements (usually a pittance compared to what they earn), which they accept because of their poverty.

Due to the focus on large-scale production and concentrated urbanisation, bulk power generation is considered to be essential. Small, local and decentralised power generation, as is possible through renewable sources, is not considered useful except in local situations. So, dispersed solar or wind power is not seen to be a solution to the energy problem facing the nation. It is also argued that the initial capital costs for solar power are high and it is not viable except with substantial subsidies.

Automation requires more energy as men are replaced by machines. Large cities require massive transport networks and use of energy (*see* previous section). There are scale economies in power generation. So, both from the point of view of demand as well as supply, the country has gone for large scale power generation.

Recently, there is a push for nuclear power because it is argued that shortages will rise and further, it is assumed to be environmentally clean since it does not release carbon into the atmosphere. However, at present, its contribution is small and it is highly expensive. The risks associated with it are also large, so it requires expensive safety features. Its waste is highly toxic and needs to be properly disposed off over tens of thousand of years. Accidents like, Chernobyl and Fukushima have shown that if anything goes wrong, there can be a catastrophe for a large area around a nuclear power plant that goes out of control. In India, where the population density is high a Chernobyl kind of disaster would affect a very large population. It has been usually argued that nuclear power generation is safe, yet accidents have occurred from time to time. The USA stopped setting up new nuclear power plants after the Three Mile Island accident. Yet, India is being pushed into this mode of power generation by foreign interests and the nuclear lobby and the government is falling for it. Given that in India whatever can go wrong does go wrong, the nation has to be circumspect in the matter. Recent cases of leakages of radioactive water in our reactors are not very reassuring.

Hydel power is sought to be produced in bulk through large multipurpose dams, which are leading to large-scale displacement. These dams are meant for flood control, irrigation and electricity generation. The example of dams on the Narmada and the large-scale protests over more than two decades is an example of what is happening. Promises of resettlement have not been kept and the displaced are mostly left to their own devices. The courts have not been able to give relief — they have overturned their earlier judgments on displacement. Experts have questioned the cost effectiveness of large dams over long periods. They have been silting up rapidly and their expected life has been reduced to a fraction of what it was supposed to be at the design stage. The denudation of forests has played an important role in this. Finally, water from these dams has not been properly utilised, which has led to either salinity (due to flooding and lack of drainage) or under-

utilisation of capacity. No wonder the cost-effectiveness is challenged. Smaller local dams for local irrigation may have provided a much cheaper solution but this has been ruled out. Due to protests by environmentalists, recently the Government of India has stopped the construction of several large dams in the upper reaches of the eco-sensitive Ganges basin but there continue to be other pressures and these contradictions are not sorted out.

India has gone for large-scale production of gas from offshore oil fields. This has changed the energy consumption scenario of households. From coal, wood and kerosene, there has been a shift to burning natural gas. In Delhi, use of CNG by public transport vehicles has been made compulsory. These two changes to the use of gas have reduced pollution levels in Delhi. However, given the rapid rise in energy consumption due to the growth of the city, air pollution levels that had come down after 2001 are back up. Of course, the situation would have been far worse but for the shift to the use of gas. Battery-operated mini buses have been introduced in inner cities since they are supposed to be clean. But batteries have to be replaced and disposed off, which results in highly toxic pollution. Production of batteries depends on heavy metals and chemicals, which is also polluting. Thus, while air pollution in the inner city has been reduced on the whole, whether it is resulting in lesser pollution is unclear.

India has set up capacity for producing power plants and transmission lines. There has been considerable indigenisation of these capacities in the public sector but at each stage the country has imported the technology because of its inability to scale it up . Now, it is moving towards import of nuclear technology. Why has India not focused more on renewable energy generation like solar energy? Investment and research could have cheapened it. Given the climatic conditions, this would have been an ideal source for meeting a large portion of the demand. If the West is not interested in it and does not invest enough, it is understandable. The problem again is a result of the drive towards Western modernity leading to both rising energy intensity and blind copying of their technology without critical assessment of India's long-term interest.

India's energy intensity has partly increased due to the increased consumption by the well-off sections of the population as well as in large measure due to the kind of industrialisation. It has involved not only more transportation but rapid expansion of heavy industries, like steel, aluminum, chemicals, etc. All these are highly energy intensive industries. In spite of these strides, India lags far behind advanced countries in the consumption of energy. In 2002, India's per capita consumption of energy was 290 kg oil equivalent, compared to 8,080 kg by the US, 597 by China and 446 globally. Even at this low level of per capita consumption of energy in China and India, the world energy resources and the global environment are under tre-

mendous strain. What would happen to world energy consumption and prices if these two countries continue on this kind of a path of modernity? This is not a sustainable path for either these countries or the world. A different path of development is needed. However, there is no thinking in this direction. Instead, a new global division of labour (Chapter VII, Section 3.4) has emerged, which is leading to the relocation of polluting and energy-intensive industries in the developing world and India has accepted this position (so has China).

At another level, the energy sector faces large-scale theft of power by industries and households, given poverty and corruption. That is why transmission and distribution (T&D) losses of power utilities have been large, resulting in losses for them. Private power producers have also faced these problems, except when they produce power for captive purposes or for bulk commercial sales. The result of theft, poor planning, overdrawing of power and poor maintenance has been poor quality of power generation in the country. The fluctuation in voltage or in the number of cycles per second and tripping are widespread. This leads to breakdown of equipment, fires and increased cost of repairs and loss in production. That is why many industrialists have now come forward to set up captive plants for their businesses. Corruption also plagues the coal mines, and many of which are now burning in Jharia leading to loss of energy resources.

In India, there is a differential tariff structure for energy. There is subsidy, both from the government and cross-subsidy from the well-off to the poor. Of course, when new industry is offered cheap power, there is a subsidy for business also. Rural India and electricity for agriculture are charged low tariffs, which involves heavy subsidy. These are to encourage agricultural production and to develop the rural areas. It is another matter that the well-off get most of this benefit. This cheap power has resulted in large losses for the State Electricity Boards (SEBs). To avoid this and help keep the SEBs financially viable and expand their business on their own resource base, subsidies should have been explicitly given from the budgets and not indirectly as is being done now. The consequence is that money is spent by the government and yet the financial condition of the SEBs is poor. Further, of late, since under political pressure and privatisation, the SEBs have had to buy high-cost power produced using expensive technology, their losses can only mount in the coming years.

5.2 Privatisation in Power Sector

Privatisation began in this sector right in earnest in early 1990s with the Enron project. In this case, India escaped financial disaster by the skin of its teeth. Before the company could feed its high cost power into the Maharash-

tra SEB grid, it suffered a financial crisis and closed down globally. Its high-cost power would have first bankrupted the SEB and then the state government as the guarantor would have had to bail out Enron. But with the state's budget already in crisis, the Centre as the ultimate guarantor would have had to provide the funds and its own budget would have suffered a crisis. All this was anticipated in Kumar (1994a).

Privatisation in the power sector was initiated soon after NEP were launched in 1991. The Eighth Plan target for power generation was pruned drastically and a major share of it was allotted to the private sector, which made little effort at setting up new capacity because of the capital involved and the difficulties in getting a remunerative tariff fixed. Thus, shortage of power started growing in the economy. Since setting up of power capacity takes time, shortages tend to persist.

As was clear from the case of Enron, the private sector cannot produce cheap power so that they can only supply to bulk consumers, like industry or commercial activity. They cannot cater to the poor and the agriculturists who can ill-afford expensive power. Thus, the shift in policy towards private power generation and transmission is leading to segmentation between the well-off and the rest and to the marginalisation of the marginals.

Privatisation has mostly been of distribution, like in Delhi. The losses due to corruption (say, theft or meter fixing) can be reduced by the private sector, which would give it higher revenue. The bribes to the officials and the politicians given earlier and reduction of theft become the profit for the private sector. However, in Delhi the consumers have complained of increased malpractices in billing, lack of transparency, lack of responsiveness and strong-arm tactics on the part of the private operators. These companies, in league with the politicians, are also trying to gain from the budget by obtaining concessions at the expense of the consumers by getting higher tariffs fixed. All this is consistent with gold plating and profit maximisation.

It needs to be asked whether for a poor country, the current energy strategy, based on trying to attain western modernity, is rational? The arguments given above suggest this needs reassessment. Focus needs to shift to a different kind of industrialisation and urbanisation, better standardisation, reduction in corruption and less of consumerism. A low energy intensity modernity needs to be attempted.

6. Communication

At the time of independence, the communication network in India consisted largely of the government's Post and Telegraph (P&T) network and to a very limited extent telephones. These have expanded enormously since independence.. Rural telephone exchanges and a large number of public tele-

phone booths were installed in the 1980s, which led to facilities for long distance communication even in small towns and rural areas.

Telecommunication expanded explosively with the advent of the mobile phone technology in the mid-1990s. This was also roughly the period when the private sector was allowed into the telecom sector and the government monopoly came to an end. Private sector companies entered both landline and cell phone markets. However, they did not last long in the landline market and moved to dominate the rapidly expanding mobile telephony. This suggests that it is not just the public sector that failed in telephony but also the private sector so that the question is not just of efficiency of the private sector *versus* that of the public sector. It involves the role of technology and other related factors. The monopoly of the government postal department was also ended with the start of the private courier services.

The rapid increase of telephone density was not simply due to liberalisation and the entry of the private sector but due to the technological revolution in mobile phone technology in the world, and which benefited India also. Public sector company BSNL became the 7th largest telecom company in the world by 2007. In mid-2007, 6.5 million subscribers were being added to the cell phone network. The overall telephone density has increased from 9.1 per cent of the households in 2001 to 25.3 per cent by 2008 and 63 per cent by 2011. By February 2008, there were 290 million telephone subscribers of which the landlines were only 39.18 million and the rest were cell phones (Table 9.11).

Table 9.11

TeleCom Snapshot 2007-2010

	Broadband (in millions)	*Subscribers Wireline phone*	*Wireless phone*
1/1/2007	2.10	40.30	149.62
31/1/2008	3.24	39.22	242.4
31/10/2008	5.05	38.22	325.73
30/11/2008	5.28	38.05	336.08
31/7/2010	9.77	35.96	652.42

(Source: TRAI)

Mobile telephony has large-scale economies and has experienced rapid technological innovation, both of which have led to its becoming cheaper. As its scale of use increased, after 2000, tariffs decreased sharply so that it became affordable by many more. Tariffs are almost on par with those for landlines. The mobile phone network is affected less by weather conditions than the landline network is, so it has turned out to be more reliable. It also offers the convenience of connectivity from any place. Hence, they have

been preferred to the landlines. In society, it has become a status symbol and is even carried around by those who cannot afford it. Since the cell phone technology did not require the extensive landlines and only required towers to be put up for expansion, it was, in a sense, simpler to expand. The handsets also became very cheap as the volume of their production expanded and with growing competition in the market, prices came down.

The use of Internet has expanded due to the availability of services over landlines and the coming of the broadband technology. India has been setting up broadband technology through optical cables. This has been driven by the needs of the IT services, which need reliable and fast connectivity with their principals in foreign countries. It is estimated that there may be 100 million accounts but the numbers are not firm. But, the number of people using Internet is likely to be much smaller than this number due to multiple accounts.

There is a divide between the rich and the others and rural and urban areas. There are three sources of this differentiation. First, access to computers is limited due to their relative high cost and non-affordability by a vast majority of the people. Secondly, electricity is not available over large swathes of the country or its quality is indifferent, so computers do not run even if available in schools. Lastly, the quality of education is poor over most of the country, including the big towns where only a few children get good quality education (*see* Chapter XI). This is a pre-requisite to proper use of Internet and information technology.

The use of information technology raises an important issue, namely how to distinguish between noise and signal given that the individual is swamped by a flood of information. Many upper class children with access to Internet and mobile phones are spending enormous amounts of time on social network sites, etc. and not sleeping enough, leading to psychological problems. The underprivileged children are being spared this trauma. But, is being left out good for them? The easily accessible pornographic sites are creating other problems. The attention span of children trying to multi-task is dropping and often they are distracted so that teaching is becoming difficult. Mobile telephony based on computerisation has the capacity to bridge the divide due to non-availability of electricity everywhere. But the rest of the problems have to be dealt with socially and for this a lot of maturity is needed. In the name of freedom and choice, should the future of the children be allowed to be adversely affected?

How technology changes affect consumption can be understood through the example of spread of television. It expanded rapidly much before the private sector entered this area in the 1970s, 1980s and the 1990s due to the technological revolution in the world. With the entry of the private sector the choice for the consumer has increased, who now does not have to depend on

the staid public sector programming. Along with it has come high pressured advertising enticing the individual to consumerism and catching the children young. Those who can ill-afford many items of consumption are enticed to consume leading to dissatisfaction and crime. TV is so intrusive that people meet each other less and within the family interpersonal communication has declined leading to its decline as an institution. While there is learning through some audio-visual programmes, there is less time for reading and reflection. Excessive viewing is known to result in hyperactivity and difficulty in sleeping, especially amongst children. Because of the gearing of programming to the market, there are more of sex and violence-based programmes, films, reality shows and other forms of entertainment, which titillates the public. Even news has become sensational to get higher ratings to earn more advertising revenue. As is said, the object of programming is to deliver audiences to the advertisers, the main source of revenue for the media. These have adverse effects on the population and its social relationships. Unfortunately, the public sector is also forced to ape the private sector to attract audiences.

The public sector has continued to play a significant role in infrastructure even though the private sector has rapidly expanded. The former is catering to the lower end of the markets while the latter is targeting the more lucrative higher-end. The cross subsidisation used earlier to cheapen access to the marginalised has, therefore, declined while there have been higher profits for the private sector catering to the upper end markets. Infrastructure requires large and lumpy capital investment and the gestation period is substantial so that till the 1980s the private sector was not in a position to invest in a big way in these areas. As its capital base has expanded due to its high profitability and the lucrativeness of infrastructure has increased because of shortages and externality effects of earlier investments by the public sector, the private sector has wanted to invest in infrastructure. Foreign capital has also wanted to get a share in the pie so that many of the telecom companies, TV channels, airlines and so on have substantial non-Indian holdings and possibly indirect control.

7. The Health Sector: Some Key Issues

The colonial period was characterised by poor health conditions in the country (Table 1.1), which resulted in a high death rate and low life expectancy. Unsanitary conditions prevailed, which led to the spread of diseases. There were epidemics like plague, which wiped out large numbers of people. There were few doctors or hospitals and little research. All this was a result of inadequate investment in the area of health and prevention. Further, the population was impoverished so that its capacity to face adversity (such as

drought and disease) came down substantially. The population depended largely on the indigenous systems of medicine but since there was no research in the area, it stagnated and could hardly cope with either the old or the new diseases. Since the ruling elite was under the influence of Western modernity, it did not pay much attention to the advancement of the traditional systems and branded them as backward.

7.1 Health Indicators: Improvements with Growing Differentiation

Data on health indicators shows (death rate, longevity, incidence of disease, etc.) that India has made considerable progress since independence. Some indicators are presented in Tables 9.12 and 9.13 on health status. Due to the progress in health status, the rate of growth of population shot up in the post-Independence period. The state has played a vital role by creating a vast health infrastructure of hospitals, primary centres, medical schools and nursing schools for training (Table 9.14).

Table 9.12

Socioeconomic Indicators of Health, 1950-51 to 2008-09

	1950 -51	*1960 -61*	*1970 -71*	*1980 -81*	*1990 -91*	*2000 -01*	*2004 -05*	*2005 -06*	*2006 -07*	*2007 -08*	*2008 -09*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Social Indicators											
Population (Million) [i]	359	434	541	679	839	1,019	1,089	1,106	1,122	1,138	1,154
Birth Rate [j](per 1,000)	39.9	41.7	36.9	33.9	29.5	25.4	23.8	23.5	23.1	NA	NA
Death Rate [j](per 1,000)	27.4	22.8	14.9	12.5	9.8	8.4	7.6	7.5	7.4	NA	NA
Life Expectancy at Birth [k] (in years)	32.1	41.3	45.6	50.4	58.7	62.5	NA	NA	63.5	NA	NA
(a) Male	32.5	41.9	46.4	50.9	58.6	61.6	NA	NA	62.6	NA	NA
(b) Female	31.7	40.6	44.7	50	59	63.3	NA	NA	64.2	NA	NA
Education: Literacy Rate [l] (%)	18.3	28.3	34.4	43.6	52.2	64.8	NA	67.6	NA	NA	NA
(a) Male	27.2	40.4	46.0	56.4	64.1	75.3	NA	NA	NA	NA	NA
(b) Female	8.9	15.4	22.0	29.8	39.3	53.7	NA	NA	NA	NA	NA

(Contd. . .)

Table 9.12 *(. . .contd)*

	1950 -51	*1960 -61*	*1970 -71*	*1980 -81*	*1990 -91*	*2000 -01*	*2004 -05*	*2005 -06*	*2006 -07*	*2007 -08*	*2008 -09*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*	*12*
Health & Family Welfare Registered Medical Practitioner (RMP) (Allopathy) (Thousand) on 31st December	61.8	83.7	151.1	268.7	393.6	577.1	660.8	NA	NA	NA	NA
RMP per 10,000 population	1.7	1.9	2.8	3.9	4.7	5.6	6.0	NA	NA	NA	NA
Beds (All Types)[m] per 10,000	3.2	5.7	6.4	8.3	9.5	NA	NA	NA	NA	NA	NA

(Source: Economic Survey 2008-09, Government of India.)

Notes: NA: Not available.

i: Relate to mid-financial year (as on October 1) based on population figures of C.S.O.

j: For calendar year. Figure shown against 1990-91 is for calendar year 1991 and so on. Source: Office of R.G.I.

k: Data for 1950-51, 1960-61, 1970-71 and 1980-81 relate to the decades 1941-50, 1951-60, 1961-70 and 1971-80 respectively, centred at midpoints of the decade, i.e., 1946, 1956, 1966 and 1976. The estimates for 1990-91 and 1991-92 refer to the periods 1988-92and 1989-93 respectively. The estimates for 2006-07 refer to the period 2002-06.

l: Data for 1950-51, 1960-61, 1970-71, 1980-81, 1990-91 and 2000-01 are as per Census of India 1951, 1961, 1971, 1981, 1991 and 2001. The figures for 1951, 1961 and 1971 relate to population aged 5 years and above and those for 1981, 1991 and 2001 to population aged 7 years and above. All India literacy rates exclude Assam for 1981 and J&K for 1991. For 2005-06, data is based on National Family Health Survey (2005-06) (+ 6 years).

m: Includes beds in hospitals, dispensaries, P.H.Cs, clinics, sanatoriums, etc.

Table 9.13

Select Health Indicators 1951 to 2001

	1951	*1981*	*1991*	*2001*
Crude Birth Rate (per 1,000 population)	40.8	33.9	29.5	25.8
Crude Death Rate (per 1,000 population)	25.1	12.5	9.8	8.5
Total Fertility Rate (per woman)	6	4.5	3.6	3.2
Maternal Mortality Rate (per 1,00,000 live births)			437	407
Infant Mortality Rate (per 1,000 live births)	146	110	80	68
Child (0-4 years) Mortality Rate per 1,000 children	57.3	41.2	26.5	20.4
Couple Protection Rate (per cent)	10.4	22.8	44.1	48.2
Life Expectancy at Birth (Male)	37.2	54.1	59.7	62.3
Life Expectancy at Birth (Female)	36.2	54.7	60.9	66.3

(Source: Office of Registrar General, India and NFHS: National Family Health Survey.)

Table 9.14

Health Care and Status of Disease in India 1951 - 2001

	1951	*1981*	*2001*
SC / PHC / CHC	725	57,363	1,63,181
Dispensaries and Hospitals	9,209	23,555	43,322
Beds (Private and Public)	1,11,198	5,69,495	8,70,161
Nursing Personnel	18,054	1,43,887	7,37,000
Doctors (Modern system)	61,800	2,68,700	5,03,900
Malaria (cases in million)	75	2.7	2.2
Leprosy (cases per 10000 population)	38.1	57.3	3.74
Small Pox (No. of cases)	44,887	Eradicated	
Guinea Worm (No. of cases)	39,792	Eradicated	
Polio (No. of cases)	29,709	265	

Table 9.15

Ranking of Major Causes of Death (Rural India) 1978, 1988 and 1995

*Top Fifteen Causes (excluding senility)***			
*1940s**	*1978*	*1988*	*1995*
1. Fevers (58.4%)	1. Asthma	1. Bronchitis & Asthma	1. Bronchitis & Asthma
2. Respiratory diseases (7.6%)	2. Pneumonia	2. Heart attack	2. Heart Attack
3. Dysentery & Diarrhoea (5.2%)	3. TB of Lung	3. TB of Lung	3. TB of Lung
4. Cholera (2.4%)	4. Fevers not classifiable	4. Pneumonia	4. Prematurity
5. Small Pox (1.1%)	5. Heart Attack	5. Prematurity	5. Pneumonia
6. Plague (0.5%)	6. Anemia	6. Fevers not classifiable	6. Cancer
7. Others (25.8%)	7. Gastro-enteritis	7. Paralysis (cerebral)	7. Paralysis (cerebral)
	8. Paralysis (cerebral)	8. Anemia	8. Anemia
	9. Debility & Malnutrition	9. Gastro-enteritis	9. Fevers not classifiable
	10. Cancers	10. Cancers	10. Congestive Heart Disease
	11. Typhoid	11. Typhoid	11. Vehicular Accidents
	12. Tetanus	12. Respiratory Infection of Newborn	12. Suicide
	13. Acute Abdomen	13. Acute Abdomen	13. Acute Abdomen
	14. Drowning	14. Congestive Heart Disease	14. Typhoid
	15. Vehicular Accident	15. Dysentery	15. Jaundice

(Sources: *Bhore Committee Report.)

**Survey of Causes of Death, Registrar General of India, respective years. From Priya (2005).

However, one can ask, whether more doctors and hospitals are a sign of better health or growing health problems in society? The answer is a bit of both because people naturally fall ill and need treatment. In a poor society there are inadequate resources to take care of people, so as society progresses it spends more on health care. This is a sign of progress. But, if diseases increase due to a variety of social reasons discussed below then these represent ill health in society. At a point of time, more health infrastructure represents better health. But over time, if timely remedial measures are taken, one could minimise it and save resources. In that sense, more is not necessarily better in the field of health.

There is a vast differentiation in the health infrastructure between the rural and urban areas, backward and advanced states, and within the urban areas between the well-off and the poor. Malnourishment amongst the poor is a cause of severe health problems but given their poverty and growing drive towards consumerism, they are neither able to improve nutrition standards nor have access to remedies due to their cost (direct and indirect). At the other end of the spectrum, the well-off sections are increasingly suffering from lifestyle diseases like obesity and diabetes or problems of old age like, dementia and heart diseases or from psychological problems due to their growing loneliness. The well-off are both influential and have the purchasing power so that they are able to draw away resources towards solving the problems they are afflicted with leaving inadequate funds for the solution of the problems of the poor. The tragedy is that many of their life style related and psychological problems have no solution unless they change their way of life while the problem faced by the poor can be resolved by putting resources into improving their nutrition and environmental condition (like, in sanitation).

Health problems due to the rising levels of pollution are growing. These are affecting people both as workers and consumers. The air we breathe, the polluted water we drink, the pesticides and chemical residues in fruits, vegetables and meat, hormones in milk and so on are impacting our health. According to the recent Supreme Court order, Bhopal municipality has been ordered to provide clean drinking water to the 'gas effected people of Bhopal' who have been getting polluted water for three decades. There is widespread adulteration of food and medicines, resulting in a variety of health problems, like allergies and cancer. (*see* Table 915) The lack of safety measures in our production units and especially in the farms and in the small scale sectors are impacting the workers. All these problems are largely avoidable if care is taken. Unfortunately, most of these are a result of the desire to make quick profits by cutting corners. The social costs are not the individual's concern. In these cases where there are human generated problems, more health infrastructure is only an indication of more ill health. The

tragedy is that the poor who suffer the most from these problems have inadequate access to health facilities.

The quality of health care available in India is largely poor. The public institutions are overworked and inadequately staffed. Doctors have little time for patients. Often, one can see more than one patient on a bed or patients lying on the floor or cockroaches crawling on beds or dirty linen being used, etc. The poor come to the public hospitals when they are very sick and need urgent attention but the doctors have little time for them, so cure is not assured and disease may linger on. In this sense, medical infrastructure is short. Academic levels in many of the country's medical colleges are poor so that the medical personnel are often ill-prepared to take care of patients. Due to unhygienic conditions in many institutions, patients develop complications and the relatives who come to tend to them also fall ill. Often, post-operative complications develop due to poor hygiene conditions. Due to spurious medicines and self-medication, resistance to drugs is growing requiring more expensive treatment.

7.2 Private Sector in Health

Under pressure of the well-off sections, an expensive private sector has emerged in the health sector. Some of it offers five star facilities. The trend has accelerated after 1991, with privatisation becoming the new buzzword. These expensive facilities are cheap compared to similar facilities in the advanced countries due to low wages of labour. As a result, these expensive facilities are now attracting foreigners — referred to as "health tourism". With privatisation, the public institutions have declined for three reasons. First, it is receiving lower priority than earlier; second, the resources allotted have been inadequate and finally, competent personnel from these institutions have been recruited at much higher salaries by the private sector. Privatisation has led to increasing cost of health for everyone, including the poor who can ill-afford it (Nandraj, 2001: 41). The rise is found to be steeper for the poorer groups because they are shifting from the public to the private sector. How do they spend more? By borrowing and alienating the few assets they possess. This inevitably pushes them into poverty even when their incomes have risen.

Many private medical colleges have come up. Due to the lure of high incomes in the medical field, many middle and lower middle class families are sending their children to these institutions. The demand is so high that these institutions are able to charge both high annual fees as well as capitation fee for admissions. One of the newspapers carried out a sting operation and found that ₹ 25 lakh and more was being charged as capitation fee. It is reported that thousands of crores of rupees are generated by the managements

of such private medical colleges. Many families sending their children to these colleges borrow or alienate assets and it is not clear that they can afford such education. Many of these children after spending enormous sums for their training are unable to start private practice or are unable to get high-paying jobs in fancy hospitals so that the investment is not recovered.

This has added pressure on medical personnel to indulge in malpractices bringing disrepute to what was considered a noble profession. During illness, when one is the most vulnerable, one entrusts oneself to another's care. If there is lack of trust between the doctor and the patient, cure becomes more difficult. Doctors prescribe tests, procedures and surgeries that are not needed so as to make more money (*see* Kumar, 1999) with the result that the patients are unable to trust the doctors and the hospitals. Practices like selling blood, organs, sex determination tests and illegal abortions have been on the rise leading to social problems of various kinds. There is considerable amount of quackery in rural areas and in the urban slums with ill-qualified people calling themselves doctors and treating patients with antibiotics and steroids and prescribing injections for everything.

India had an extensive traditional system of medicine, which has been on the decline with people shifting to the modern system of medicine. The traditional system was based on a holistic vision of nature, humans and disease but the modern system while claiming to be holistic is actually based on increasing specialisation which compartmentalises. No one doctor is able to look at a patient as a whole, which leads to mistakes. In the traditional system, the patient was also involved in the treatment but the modern system has become so complex that the patient is unable to make much sense of what is going on and is often a passive recipient. Unfortunately, due to the growing domination of the western system of medicine, the traditional systems have not only retreated but little research has been carried out so that they are unable to update themselves. This has happened precisely at a time when new diseases and illnesses have come up due to changes in the environment, which have affected the body's own ability to cope with illness and impacted adversely the traditional systems that depend on the body's ability to cope with diseases.

The traditional systems were harmonised with people's lifestyles and their surroundings and in that sense were holistic. A part of the cure was proper rest and helping nature take care of the body through natural medicines. The western notion of disease is different and the lifestyle changes are only prescribed in case of severe illnesses to keep them in check. Like in the case of blood pressure, diabetes and heart attack, there is no cure in the sense of eradication but only keeping control through medication and regulated diet. If the lifestyle had been different, these diseases would have had a lower intensity than at present. Further, western medicine is dependent on

drugs and faces the problem of drug resistance so that more and more new and expensive medication is required and also fighting the illness is becoming more difficult.

Currently, the focus is on cure rather than on prevention. As discussed earlier, there is profit in the former but none in the latter. This was the critique of Western system of medicine by Gandhi (1909) which he argued does not teach individuals to exercise restraint and self-control but to do what they please and then go to the doctor for medication. It weakens the resolve of individuals to take control of their own body and health and to be in harmony with nature. According to him when we go against nature, problems follow and the health system can only give palliatives but cannot take care of it. Thus, even though there is longevity, the quality of life of many of the elderly is poor. In fact, the largest amount of health expenditure takes place on the well-off elderly and their care. This becomes a source of tension to the elderly at a time when they should be relaxed. In a privatised health system, like in the US, the health system's profits seem to take precedence over living peacefully in old age.

7.3 Health as Merit Good

Health is characterised as a merit good. That is, its valuation by the individual is less than that of society, especially for the poor and in the case of the girl child. Hence, less is spent, if left to the markets, than should be spent by society. Further, there is an information asymmetry for the patients who are at the mercy of the doctors and as argued above, since trust has largely broken down the patients often feel they are taken for a ride. While the private sector often indulges in unethical practices to cheat the patients the public sector indulges in corruption and is increasingly indifferent so that the patient does not know what to do. Many doctors in public institutions also indulge in illegal private practice by forcing patients to come for private consultation and pay fees.

Health is directly linked to current productivity of society and the health of the future generation. Its effects go beyond the individual so that good health is a social concern. In India, there is a gender discrimination in the family so that the girl child is not as well looked after as the male child. However, good health of the female is critical for the health of the child she would bear. Left to the market and high prices ruling there, the girl child would suffer even more than now. The low ratio of girls to boys (adverse gender ratio) is a reflection of much that is wrong with India's health system and social attitudes. Thus, public health system is absolutely critical.

Left to the market, with a declining influence of the increasingly inadequate and poor quality public sector, the private sector has been raising

prices/charges since 1991. Since nothing can be more valuable for the individual than her/his health, she/he is willing to spend as much as is needed, at times even bankrupting the family. Pricing of health is very difficult. What should be the fee or remuneration of the doctor is hard to fix. There can be no rule. As salaries have risen, the restraint on doctor's fees has also gone and they now often charge exorbitant fees. While there is no yardstick for it, fees need to have a relationship with the per capita income of the country because that represents the paying capacity of the average person. Why should the doctor's salaries or fees be fixed on this basis while others are free to charge what the market can bear? The implication is that all incomes must be fixed in relation to the per capita income but that would require an income policy, which the business community in India would be opposed to. So, with privatisation, there is no escaping rising health costs and the marginalisation of the marginal.

In brief, the ongoing marketisation process has imposed various irrationalities on the economy and one of these is turning health into a commodity whereas it ought not to be given that it is unlike other goods and services. The Hippocratic oath implies a non-market functioning for the doctors. A patient cannot be equated with an ordinary good at a price. This undesirable trend has led to an explosion of greed amongst the medical profession as they become corporatised or ape the private sector or convert themselves into businessmen running testing facilities, hospitals and clinics. It is the business aspect that begins to dominate their thinking. Their association with drug companies is leading to a conflict of interest. A doctor accepting a relationship with a pharmaceutical company feels obliged to recommend its products even if cheaper options are available. Such unethical practices also take place in the shape of poor people agreeing to be used for testing of new drugs or as donorns of organs. Due to their ignorance and poverty, they agree to become guinea pigs for a low price. Their marginalisation is complete.

7.4 Need for a Holistic Perspective

Gandhi (1909) argued that Western medicine is parasitical and keeps people in bondage since cure is becoming incidental. With weakening medical ethics, disease can be prolonged. Further, rather than help the body to fight disease, the modern medical system may weaken the body. For instance, antibiotics not only attack the pathogen but also the good bacteria in the intestines and so on. The growing lack of trust in the medical profession is creating problems. Without faith in one's doctor, often one is forced by the system to consult several specialists, which raises costs unnecessarily. That is why in the USA and increasingly in India, doctors and hospitals are being

sued for damages and they have to take out expensive insurance policies against such suits. This raises health costs further.

While modern medicine and better sanitation have increased longevity, it is not clear that the quality of life in old age is what it ought to be. With increase in pollution and tension (inner pollution) in life, old age diseases are making the life of the elderly miserable in spite of all the material belongings, etc., that they may possess. Loneliness is rampant and so is depression amongst the elderly. They end up spending their last years in possibly the worst state of mind of their lives. Everyone knows they will get there and face similar problems but in their prime they do not think it would happen to them, so the requisite attention that the matter deserves is not paid and action to correct the problem is not initiated. There is a need to rethink about public health.

The colonial rule severely disrupted India's health system by progressively marginalising the traditional systems, so that no research took place in it and, therefore, it has stagnated and also its prestige suffered in comparison to the high-cost Western system. This shift also impacted a holistic thinking about the body and the health system. Slowly the traditional system of taking care has been given up and new foods — both processed and from other countries — have been introduced whose effects on the body are not clear to the traditional system of medicine and especially because it has not been doing research.

The Ayurvedic system depends critically on the properties of the foods that are consumed but with changes in farm practices and introduction of new chemicals in water and soil, the properties of various foods may have altered, so that the effect on the body may also change but with little research in these areas none of this is known. Usually, research requires state support. But in the absence of any interest of the colonial masters and their desire to brand everything traditional as backward, this was not done. Further, as life changed from the pastoral to the modern, cures had to be instant and could not afford to be slow as with the traditional systems. The modern system promises quick relief by popping pills and getting injected with drugs — no matter what the side effects are.

The disruption of the traditional systems and their replacement with the modern system may seem to be working well for the prosperous but it is hardly a solution for the vast majority whose health issues have not only not been properly addressed but who are priced out of the high-cost system. A poor society like India is getting locked into a high-cost solution for its health care under pressure from business lobbies. These problems have been aggravated by the choice of the developmental path, which has led to rising levels of pollution, resulting in new diseases and ill health among the entire population but especially among the marginalised who are forced to live and

work in poor conditions. Thus, the marginalised are adversely affected, both because their access to health infrastructure is limited and they have to face more and new diseases for which even the traditional and cheaper system has no answers.

In brief, health systems in India have to face the problems created by the colonial rulers who forced a shift from a holistic and low-cost traditional system to a high-cost modern one leading to various societal problems and especially for the marginalised sections.

8. Conclusion

India inherited a poor social and physical infrastructure due to lack of investment over two centuries. A comparison between the infrastructure in Britain and India in 1951 shows the stupendous gap that developed between the two nations as a result of colonial policies. In spite of 50 years of rapid development and substantial progress in infrastructure development in India, even in 2000 India had not caught up with the infrastructure levels prevailing in Britain in 1950. This gap is a measure of the lack of investment and development in India and the extent of its backwardness.

At one level, India's infrastructure has vastly improved but there is a long way to go not only to catch up with the advanced countries but also to fulfil the basic needs of the bulk of the population. At another level the development path has led to a variety of problems, like growing disparities, high costs, energy and capital intensive development leading to shortages and shocks to the economy when energy prices or interest rates rise.

The public sector has played a large role in the developments but since 1991, privatisation has rapidly occurred. While the private sector has led to great improvements in, say, telecom, air traffic and so on, it has also created problems because it is unable to cater to the needs of the poor due to the pricing. In some cases, rapid expansion is not a result of privatisation but rapid technological changes and the scale economies associated with those technologies, like, in the case of mobile telephony. In some cases it is the effect of change in policies so that what was not encouraged earlier (like, air travel) because it was considered a luxury, is now being permitted by the government.

The development path has led to concentrated urbanisation, which is expensive and not suited to the needs of a developing and poor society. It has created a huge differentiation in the population by pre-empting resources, leading to widening rural-urban disparities. Further, even in urban areas it has created differentiation between the big and small towns and within the towns between the well-off and the poor. (*see* Table 9.16)

Table 9.16

Net SDP at Factor Cost at Constant Prices for the Major States of India

(In hundred Crore)

Year / State	AP	Assam	Bihar	Jharkhand	Gujarat	Haryana	HP	J&K	Karnataka	Kerala	MP	Maharashtra	Orissa	Punjab	Rajasthan	Tamil Nadu	Uttar Pradesh	WB
2001-02	1321	337	504	283	935	549	139	142	936	656	715	2215	397	640	799	1235	1626	1386
2002-03	1359	357	568	293	1016	581	146	149	981	702	678	2379	397	653	703	1243	1678	1435
Gr Rate	2.88	5.93	12.70	3.53	8.66	5.83	5.04	4.93	4.81	7.01	-5.17	7.40	0.00	2.03	-12.02	0.65	3.20	3.54
2003-04	1491	379	537	314	1185	634	156	157	1011	747	754	2551	453	688	927	1321	1763	1512
Gr Rate	9.71	6.16	-5.46	7.17	16.63	9.12	6.85	5.37	3.06	6.41	11.21	7.23	14.11	5.36	31.86	6.28	5.07	5.37
2004-05	1580	398	600	411	1278	693	170	165	1124	801	781	2773	511	724	895	1471	1829	1609
Gr Rate	5.97	5.01	11.73	30.89	7.85	9.31	8.97	5.10	11.18	7.23	3.58	8.70	12.80	5.23	-3.45	11.36	3.74	6.42
Av Gr rate	6.19	5.70	6.32	13.86	11.05	8.09	6.95	5.13	6.35	6.88	3.21	7.78	8.97	4.21	5.47	6.09	4.00	5.11
High Gr states					11.05	8.09			6.35			7.78				6.09		
Low Gr states			6.32								3.21				5.47		4	

(Source: RBI (2009); Handbook of Statistics on the Indian Economy, 2007-08.)

Note: Minor States not considered like Jharkhand, Himachal Pradesh and J&K. Gujrat + Haryana + Karnataka + Maharashtra Av over the three years = 8.32%, Bihar + Madhya Pradesh + Rajasthan + Uttar Pradesh Av over the three years = 4.75%

The discussion regarding the health sector is not based on the usual economic discussion on macro and micro economic factors affecting supply and demand for health. Instead, the approach is based on a consideration of the long-term aspects of the evolving health sector due to the development path being followed. It is argued that the short-run, macro and micro, demand and supply factors have to be situated in this context. Independent of such a framework, the health sector-related problems faced by the nation can hardly be understood.

An analysis of developments in India's infrastructure since independence indicates that disruption continues in a variety of ways. This is no different than what is observed in other aspects of Indian economic and social development since independence. The analysis indicates the impact of a lack of independent thinking on a crucial area and society in general.

Chapter X

Link between Poverty, Inequality, Marginalisation, Employment and Environmental Destruction with Disruption

> "Planning Commission statistics are wrong. The reality is that a small number of rich people were pulling up the average. About 70% people live on 3 annas, instead of 15 annas (about a rupee) a day."
>
> — *R. M. Lohia (1963). Teen Anna, Pandrah Anna speech.*

1. Introduction: Poverty as a Social Category

The marginalised in society may not all be poor but the poor are certainly marginalised and more so in a marketising society (*see* Chapter VII) where the "dollar vote" prevails and determines the individual's status in society. This comes in the way of eliminating poverty in spite of their being adequate resources to eliminate it. Why does the ruling elite not feel ashamed of the continuing misery of fellow citizens? The answer lies in the disruption of its consciousness. Disruption in society, on the one hand, leads to poverty and marginalisation and on the other hand, perpetuates them by fostering amongst the elite an attitude of indifference towards the marginalised. Of course, exploitation is a key underlying reason for poverty but disruption in society accentuates its form and thereby makes it appear to be more difficult to tackle. This is the focus of this chapter.

In modern day economics, determining who is poor is not so simple since the focus is on statistics, which by themselves do not fully define poverty or identify who the poor are? For operational reasons a poverty line is defined to divide the population between the poor and the others. The task of the policy maker tackling poverty then becomes one of raising the incomes of those below this (arbitrary) line. However, this method also lends itself to manipulation of statistics to show lower poverty so as to claim better performance.

Any poverty line is likely to be arbitrary and in the Indian context where it is largely based on the calories consumed by the individual, it is very basic and can only represent "extreme poverty", and not poverty itself. Anyone slightly above the poverty line (₹ 12 per day in rural areas in 2004), say by

₹ 1 or even ₹ 20 per day does not become non-poor — the individual remains poor, if not extremely poor.

The problem is compounded further because poverty is a "social" category, which is both space- and time-specific and not a fixed line for all times. For instance, its features would vary with the country (say, USA or Bangladesh) or the region of a country (say, Ladakh or Tamil Nadu in India) and with time (say, in Britain in 1700 AD or in 2000 AD).

Poverty is an issue of social perceptions, which are forever changing. In a society where sacrifice is a virtue, individuals may consume very little (Sadhus in India) and not be considered poor. However, in a consumerist society, which has few public goods, individual consumption would have to be high for a person to be considered above the poverty line. In the latter case, in spite of a rising level of consumption, individuals may be discontented and may consider themselves poor; social perceptions may be shaped by advertising, which leaves people feeling dissatisfied. The "social minimum necessary consumption", which would qualify a person to be treated as non-poor, changes both over time and across societies. That is why the definition of those who are considered poor ought to change over time. Unfortunately, international agencies are trying to create a uniform poverty line by defining the minimum consumption and India has uncritically accepted the same to get international approbation. India needs to have its own yardstick; even Bhutan has its own criterion.

A yardstick to measure poverty based on a fixed notion of material welfare while social perceptions are rapidly changing cannot be a good measure. Unfortunately, India has taken material welfare as the sole yardstick and that too, pegged to the level of the 1960s and the 1970s, even though it is well recognised that since then social perceptions have dramatically altered, especially because of the spread of TV and projection of images of a good life based on consumerism. In Punjab, after the spread of the Green Revolution in the late 1960s, it was argued that poverty has been eliminated since everyone started wearing chappals (footwear) — traditionally, walking bare feet was a symbol of poverty. It is an irony that Punjab experienced separatism and terrorism in the late 1970s, since the young from the better off families did not want to work in the farms but wanted non-agricultural jobs. In the mind of these youngsters, the inability to get the desired job became a symbol of poverty (not chappals) and a cause of discontent.

1.1 Perception of Poverty Amongst the Rulers and the Ruled

1.1.1 Are Animals Poor?

If material well being is the determinant of poverty, one may ask, 'are animals poor'? We hardly give this question any thought since neither are ani-

mals considered to be a part of society nor are they conceded rights. On the contrary, humans constantly try to figure out how best to fit them into our scheme of things — for locomotion, as food, for entertainment, etc. We have driven many of the species to extinction through a variety of actions. Some may argue, there is nothing wrong in that since nature is for our appropriation and if in our pursuit of happiness, some species become extinct, it is immaterial. In this view, animals are not poor even if they have no material possessions because the concept is social and they are not considered to be a part of society. Animals themselves have little perception of possession of material goods (except marking territory, protecting their kill and similar activities) and of being materially poor. This highlights how poverty is socially defined and a category that is entirely social.

The changing perception of material possessions and of human activity have led to changes in the social notion of poverty. Where exploitation is acceptable, inequality and following from it poverty would be inevitable. To the colonial powers the colonised people were lesser people, fit only to be exploited. They did not worry about the consequences of their actions resulting in material deprivation and social regression. So, for them poverty of the colonised was immaterial and, therefore, did not need action. Today's ruling elite, with their disrupted consciousness, think along similar lines and consider the ruled to be for their benefit and exploitation. So, they do not consider deprivation in society caused by their actions as a cause either of serious worry or urgent action. Thus, poverty in society is about the social perceptions of both the ruling elite and the subject populations.

Society's self-perception about poverty amongst its constituents leads it to characterise some as poor if they are materially deprived. Whether or not persistence of poverty is taken to be important enough to act also depends on the self-perception of the rulers and that is determined by their self-interest. This was true of the colonial masters and applies equally to the current ruling elite, consequently, poverty persists even though the world view of the two is vastly different. For the former it was a reinforcement of the belief that the natives were backward while the latter see it as a blot on their drive to modernise and be counted amongst the modern nations. But this latter view pales into insignificance in comparison to their own desire for rapid material acquisition.

1.1.2 Democracy and the Marginals

Tribals or the indigenous people, untouched by modern human civilisation have often tried to avoid contact and often seemed happy with very little material possessions, with their rudimentary but rich lives. For instance, the "Jarwas" in the Andmans. It is the "civilised" who have taken it upon themselves to draw them into their civilisation; often to conquer their lands so

that they can exploit it for minerals and raw materials or for their other needs (setting up infrastructure or industry). The "civilised" take a self-centred approach justified by the idea of "civilising" the "barbarians" but in reality for their own self-interest. This is true in contemporary India in, say, Niyamgiri, Orissa or in Lalgarh in W. Bengal or in Jharkhand and Chattisgarh. It was the case in the US of the Seventeenth century when the whites defeated / decimated the Red Indians by various tricks (Diamond, 1997) or when earlier the Spanish destroyed the Mayan or Inca civilisations to conquer their lands and riches (especially gold). Neither the indigenous people that the whites tried to civilise nor the tribals the Indian mainstream are drawing into the mainstream considered themselves poor. Their self-perceptions about poverty changed only as they came in contact with modern society and adopted its values. However, unfamiliar with the modern technology and the ways of modern world, often these people have faced deep personal crisis over long periods of times. The indigenous people everywhere in the world with hardly any exceptions have had to cope with extreme exploitation and skipping many stages of social development resulting in crisis in their lives.

Inequality and perception of one's poverty are interlinked through expectations. Inequalities in society have always existed and often even of extreme forms. They persist because they become acceptable when there is a social sanction for them. In a feudal set up, it is expected that the landlords will live well compared to the rest. But in periods of rapid social change these relativities may become unacceptable because those below question them. This questioning is aggravated when there is a demonstration effect associated with the lifestyle of the well-off in society and those below aspire to copy it. When they are unable to do so, they feel dissatisfied and perceive themselves to be poor. Once again social perceptions come into play.

The poor have little say in social affairs. Not only does society perceive them to be marginalised but they themselves believe it to be so. In the Indian context, the weakness of democracy or its truncated nature results in the marginals having little say in spite of their numbers. While democracy means 'one person, one vote', in a truncated democracy, like India's, this remains a formality. The weak have little genuine choice about who would represent them since either the ruling class puts up the candidates or is able to co-opt the successful candidates from amongst the poor. Thus, in the legislatures, those who should talk on behalf of the poor hardly do so. The rulers are able to corner the vote and carry forward their agenda. Gandhi saw this as the weakness of British Parliamentary democracy (Gandhi, 1909). Thus, the focus of society is on the concerns of the elite and not those of the marginals who are treated as residual and who have to depend on crumbs (trickle down) from the elite.

The marginals may not only be the poor but are also those who have little say in the affairs of the state. This is the situation of women, the people of the North-East, the people of Kashmir, the tribals or the lower and the backward castes. As already discussed, it is not good enough to have leaders from these constituencies in the ruling circles. The issue is whether the interests of these groups are represented in the legislatures (Chapter IV, Section 2.1.5). Separatist movements have come up in Kashmir and the North-East both because of ethnic and religious reasons and the perceived marginalisation in national affairs. This is the case in spite of massive subsidies granted to them by the rest of the country. Marginalisation not only has a material basis but also a political aspect. In the last two decades, the Maoist movements have spread rapidly in the poverty stricken areas of the country and the Prime Minister has been constrained to admit that this is the single most important internal security threat.

Marginalisation and poverty are multi-dimensional depending on incomes, employment, caste, religion, gender, unorganised nature of much of the economic activity, inflation, food security, environmental factors, displacement and growing disparity or enclave development. These factors are discussed in this chapter.

In India, poverty, inequality and marginalisation are consequences of the overall social conditions and largely historically determined by the colonial rule. They may be listed as, first, investments were far lower than they could have been for close to two centuries (*see* Chapter IX, Section 1) due to the drain of the surplus. Secondly, disparities were cultivated / resulted through the strengthening of the system of landlordism and feudalism. And finally, the creation of conditions so that even after independence the elite ruling class that emerged was outwardly oriented and wanting to quickly copy Western modernity to the exclusion of other considerations.

In brief, poverty needs to be understood not only as a current phenomenon of deprivation of sections of a population but also as part of a complex historical process, which leads not only to its existence but also its acceptance and rationalisation by the ruling elite. They try to deny its extent and repeatedly claim that it is declining ignoring the reality of its changing form. In effect, existence of poverty in a society involves the entire social fabric of that society — its thought processes and its social philosophy.

2. Changing Nature of Poverty and Inequality in India

Poverty is an end product of a social process, as argued above and has both a historical and a contemporary context. It does not emerge suddenly but evolves over time and depending on the goals and the will of the nation it may be eliminated or may persist. Today, the technology and the productive

capacity exists in the nation that can eliminate the grinding poverty visible all across the nation — from the fanciest colonies of urban India to the most backward rural areas. Unfortunately, India is one of the few countries of the world where grinding poverty exists (*see* Table 1.2). At the time of independence there were many countries, the former colonies, which were steeped in poverty, today very few are left. This suggests that grinding poverty may be eliminated in a fairly short period of time if the nation has the will. The lack of will in India is linked to the nature of the national leadership as it is historically conditioned (*see* Chapter II) so that it becomes the most crucial aspect of how poverty is perceived in society.

In whichever aspect the ruling elite has shown its will, it has achieved much of what it wanted, whether in sending a spaceship to the moon or spending tens of thousands of crores in Delhi to hold the Commonwealth Games in 2010. The problem is that the priorities of the ruling elite are self-serving so that the poor are residual in its consciousness — the trickle down has become central in its consciousness about development. The key to the process of perpetuation of poverty is the way education, employment, investment, production and finance are controlled in society.

2.1 Historical Context of Current Poverty and Inequality in India

As Table 1.1 shows, in India, right through the twentieth century, the social conditions have been found to be wanting and the level of poverty high. This is linked to the persistence of the impact of colonisation (*see* Chapter II, Section 5 on disruption) which resulted in:

(a) low levels of investment in the economy,
(b) lack of development in agriculture and industry,
(c) poor social and physical infrastructure,
(d) disruption of the links between India's ruling elites and the mass of people,
(e) the emergence of massive disparities between a tiny elite class and the mass of impoverished people, and
(f) a loss of dynamism in society to tackle its long-term problems.

This is the baggage with which the nation and its deprived and marginalised sections are still struggling.

The impact of the colonial rule has been both at the tangible and the intangible levels. Deprivation at the physical level is obvious and visible and is crying out to be tackled effectively. It can be done but is not being done due to the impact of the colonial rule at the intangible levels. The leadership and

the elite with their feudal and colonial mindset have effectively thwarted policies even where they were put in place. For them the self-interest comes before the community and the short-run has dominated over the long-run interest of the nation. They think of the community only as an instrument to be manipulated / exploited for their own rise to power and enrichment so that the majority is marginalised in society and the poor are the residual / incidental.

The narrow view of the ruling classes about the nation and their own self interest are themselves a result of the loss of dynamism due to the colonial disruption. It is a result of the borrowed notion of modernity, which has given them an outward orientation, a dependence on the West for solutions (or non-solutions as argued in Chapters II and VII) and a dependence on the demonstration effect from the West in their day-to-day life. Consequently, there is heavy dependence on borrowed technology (*see* Section 5.4 later and Chapter XI) even when it is inappropriate for the country and certainly for the poor and the marginalised sections of the country.

The elite Indian ruling groups co-opted by the British during the colonial period, have, in the post-1947 period slowly lost their emotional attachment to the country and the Indian masses (whatever there was) due to the pull of Western modernity. They have believed that the masses, steeped in Indian tradition, are backward and a drag on their progress and modernisation. One consequence of this dichotomy has been that the extremely poor living conditions of the masses have become acceptable to them (due to their alienation). Actually, both groups suffer from a colonised consciousness with low expectations from each other. While the elite marginalised the majority, the poor became fatalistic, accepting their lot.

Even though under the pressure of the national movement, the state has had poverty removal as a goal and at times the elite is embarrassed at the poverty all around it (like when the Queen of England on a visit to India in 1997 complained of stink all around the spruced up Rajghat), there is an acceptance of its existence. For the elite there are benefits from the availability of cheap labour (even though there are complaints from time to time of scarcity of servants performing domestic services cheaply). The state has defined poverty on the basis of a numerical poverty line and set the goal of reducing the numbers below this line. However, this is a definition of extreme poverty and not of poverty.

In India, extreme poverty, as defined by the poverty line has persisted in spite of the "attempts" by the state to eradicate it. One of the key goals of the National movement was to eradicate poverty and since it was recognised that its cause was social, the Indian state was given the task of eradicating poverty. No one disagrees that poverty has to be eradicated from society, yet it persists. Today, India has one of the most uncivilised conditions of living in

the world (Table 1.2). If that is not poverty then what is? Does one have to read about it or know its statistics to know that there is poverty (*see* Table 10.1)? Though in percentage terms extreme poverty has declined, in absolute numbers it is greater than in 1947. One may ask, why does the obvious not happen — namely, that poverty is eliminated, no one disagrees in Parliament that it needs to be eliminated? We need to ponder over why those in power do not pay greater attention to poverty?

Table 10.1

Estimates of Poverty in India over Time: Sector-wise 1973-74 to 2007

Year	All India		Rural		Urban	
	All India Number	Poverty Ratio	Rural Number (Million)	Poverty Ratio	Urban Number (Million)	Poverty Ratio
1973-74	321	54.9	261	56.4	60	49.0
1977-78	329	51.3	264	53.1	65	45.2
1983	323	44.5	252	45.7	71	40.8
1987-88	307	38.9	232	39.1	75	38.2
1993-94	320	36.0	244	37.3	76	32.4
1999-00	260	26.1	193	27.1	67	23.6
2007*	220	19.3	170	21.1	49	15.1

(Source: Tenth Five-Year Plan.)

Note: * Poverty projection for 2007

The role of foreign capital and colonialism in making poverty endemic needs to be understood. As colonialism declined after World War II, the world became bipolar. To the desperately poor former colonies, aid was offered with a view to keep them under control and to have leverage over them to protect the interests of the colonial masters. In the post-Soviet phase, the pretences disappeared and aid was replaced by capital flows (*see* Chapter VII, Section 4). In the current era of an ideologically unipolar world with the poor nations having no options, they are being subjected to multilateral pressures through the international agencies involved in global governance, like the UN, WTO, WB, IMF, etc. There is no pretence about not wanting to capture markets. Capital has got the upper hand and its mobility enables it to obtain concessions from the various nation states. This has weakened the democratic movements the world over. Palliatives like, safety nets, debt write-off and MDG are offered from time to time. However, unless the underlying causes are tackled, these steps are no more than a periodic course correction to ward off a deeper crisis. If the developing nations do not un-

derstand this domination over them by foreign capital can only be the fault of their rulers.

Much was expected from free India. The national movement released new forces of democratisation amongst the people but the ruling elite remained in the colonial mould. It has remained self-absorbed and has only conceded the minimum under pressure from below. The nature of the Indian leadership is still feudal so that it does not see its long-term interests and acquiesces in the persistence of poverty. In this sense, the national movement did not advance far enough in democratisation of society so that it remained elite centred.

There are two separate circles of development, one for the elite and the other for the rest, as discussed later. This is resulting in greater inequality and its perpetuation. Further, where resources are needed for the pet schemes of the elite they are found and spent — Commonwealth Games is a recent example. Corporate tax expenditures is another example. In contrast, resources are said to be short for the needs of the poor. For the expenditures for the poor, the argument is repeatedly given that the nation is short of resources or that corruption would eat up most of the resources. A similar argument is not used for Commonwealth Games because the elite back it. Clearly, poverty removal is a matter of political will and policies.

One can ask — is any nation short of resources for its own balanced development? After all, the advanced nations also developed from a low base to reach where they have. However, our path of development has to be different from what the advanced countries followed (Chapter V, Section 1.3) since an alternative use of resources to tackle poverty would be required. An alternative strategy (Kumar, 1994a) of tackling the black economy and reorienting resource use in the economy would raise the rate of growth of the economy by 5% while keeping distribution of incomes more equitable (Kumar, 2005b). But the elite resist tackling the black economy and the temporary hardships they may face. They wish to know where else has it been done, which is a convenient excuse not to give up their current gains. A bird in hand is better than two in the bush. So, they protect their current gains.

2.2 Definitional Aspects of Poverty

For the pre-independence period, Nehru said, " . . . to get rid of the appalling poverty of the people . . . the irreducible, in terms of money, had been estimated by economists, at figures varying from ₹ 15 to ₹ 25 per capita per month" (Nehru, 1946, pp. 402-403). It also shows that the very top leadership of the National movement was concerned at the grinding poverty the country suffered from. But the figures given were a kind of a guess. So, how is poverty to be measured?

Largely, poverty is defined in terms of a poverty line, which in turn is defined as the threshold level of income or expenditure to attain a minimum level of living. An individual whose income or expenditure is less than this level is taken to be poor. This is called the Head Count Ratio, i.e. the proportion of the poor in the population. In India, the poverty line is based on expenditure data drawn from the large sample surveys on consumption quinquennially conducted by NSSO. There are controversies about the way the surveys are done (Sen, 2000). More critically, the method ignores the heterogeneity among the poor. All those below the poverty line are treated alike, whether just below it or way below it.

The Planning Commission's Working Group in 1962 was the first to systematically define poverty line in India. It took into account the ICMR's recommendations regarding balanced diet and estimated that at 1960-61 prices, a minimum standard of living could be attained at a per capita monthly expenditure of ₹ 20 in rural areas and ₹ 25 in urban areas. Expenditure on education and health were excluded on the plea that these services would be provided by the government.

The emphasis of the working group was on the "minimum standard of living" and not on any calorie norm. Dandekar and Rath (1971) used a nutritional adequacy norm for estimating poverty in India. They adjusted their results slightly to make them consistent with the Working Group methodology. They gave the poverty line as ₹ 180 per annum in rural areas and ₹ 270 per annum for urban areas. Further, adjusting for inter-state variations in the cost of living, Dandekar and Rath found that 38 per cent of the rural population (about 135 million people) and 54 per cent of the urban population (about 42 million people) fell below the poverty line in 1960-61.

The Planning Commission's *Task Force on Projections of Minimum Needs and Effective Consumption Demand* (Government of India, 1979) came up with differential calorie norms. They argued that on average, a person in a rural area requires a minimum daily intake of 2,435 calories while a person in an urban area requires 2,095 calories per day. These were then rounded off to 2,400 calories and 2,100 calories, respectively. The calorie requirement recommended by the Task Force gives the official poverty line. The monetary equivalent is calculated by adjusting the 1973-74 poverty line for inflation.

In 1989, the Planning Commission set up an expert group, which submitted its report in 1993. It was in favour of retaining the poverty line approach anchored in a calorie norm. The Expert Group did consider the idea of allowing for changes in the consumption basket, but it was abandoned as that would make comparisons over time difficult. The Expert Group was of the opinion that state-specific poverty lines should be arrived at by applying the prices prevailing in each state to the national calorie norm.

Discrepancy between the estimates of consumption expenditure from the National Accounts Statistics (NAS) and the National Sample Survey (NSS) has been a major issue in the literature. Typically the average consumption expenditure estimated from the NSS has been lower than that from the NAS (Minhas, 1988 and Government of India, 1993c). Until the early 1990s, the standard practice was to calculate the ratio of consumption expenditure estimated from the NAS to that from the NSS and jack up the figure obtained from the latter across all expenditure classes by that factor. Following the recommendations of the Expert Group on Estimation of Proportion and Number of Poor in 1993, the practice of adjusting the NSS estimates was discontinued. The last attempt at looking at the methodology for estimation of poverty was by the Tendulkar headed Expert Group (GOI, 2009d).

While in % terms the population below poverty line fixed in 1973-74 has halved by 2004-05, there is no significant reduction in the absolute numbers. Poverty declined by 9% in the pre-reform period and almost 8% in the post-reform period; slightly slower in the post-reform period. Table 10.1 presents the figures of poverty in India at various points of time since independence.

However, international agencies have their own notion of poverty. By comparison, the Indian poverty line is abysmally low. The international line used to be $1 per day or $2 per day and now the lower line has been raised to $1.25 per day. According to GOI (2007c), based on the NSS survey for 2003-04, 77 % of India spent less than ₹ 20 per day (less than half a dollar) while 96% spent less than ₹ 48 per day (about $1) and 99% spent less than ₹ 80 per day (slightly less than $ 2). These are very unflattering numbers for a nation thinking of itself as an emerging super power.

This entire debate misses the point that poverty is affected by the black economy (*see* Section 4.5 of this Chapter). NAS and its consumption data are vitiated. The NSS data is biased since those in the upper brackets do not reveal their correct income or expenditure. The data even for the poorest decile is likely to be biased due to inadequate coverage. Price data is suspect so that the correct price index to be used is not available. Services that the poor are supposed to get from the state are not what they are on paper. Thus, in the context of the above discussion, it is not clear whether NAS should be used to correct the NSS or some other procedure is required to do the correction. When all these are taken into account, only then would the real face of poverty emerge.

2.2.1 Changing Nature of Poverty in India

Even if one accepts the view that the poverty line used by the government at least depicts extreme poverty in India, this does not take into account its

changing nature over time. Today, many more things are necessary for bare existence than was the case in 1962. What one can say about the current practice of using a fixed line is that many of those below the poverty line have made material gains (like having some footwear) but it is another matter whether they have gone above what would be the current poverty line.

Poverty is made harsher by rapid commercialisation in society. Free goods of nature that were available earlier, especially in rural India, to the poor are disappearing so that an income is needed to acquire these items that were earlier available for free. In this sense, a higher income is needed in rural areas to fulfil basic needs, just as it is the case in urban areas. Poverty, then, is a far more monetised concept than earlier and far harder to cope with. Greater mechanisation has resulted in changes in farm practices and reduced the availability of free goods, like, bio-mass.

The denudation of forests in close proximity of villages has meant greater amount of time spent on collecting firewood. Further, in many areas, as a result of afforestation, wells have dried up and water has to be fetched over greater distances leaving less time for productive work. These two aspects, particularly affect women and they are unable to earn more or take care of the household needs making the quality of life far worse. Finally, at times, fuel and water have to be purchased so that the family budget gets adversely affected. This is especially true in urban areas. Even when water is stolen from pipelines in urban areas, bribes have to be paid reducing earnings.

Commercialisation has affected education, health, housing and energy in a big way. Correspondingly, cost of living (especially in urban areas) has gone up sharply. Even when housing is based on encroachment of public land, bribes have to be paid, so, it is not free. Health costs have to be borne to survive. Even though the poor go to the health system only in extreme cases, the cost is higher now due to growing privatisation, user charges in public health system and increase in cost of medicines. Even in public hospitals and clinics, there is corruption, which increases costs. Further, in public institutions due to delays in treatment, there is significant loss of income due to inability to carry on work. Many poor, then, prefer to go to private practitioners and prefer quick cures through injections, all of which raises costs.

Due to rising consumerism and growing commercialisation, expenditures on social functions have risen dramatically, say, for marriage or at the time of birth of a child. There is a kind of demonstration effect from the upper classes that are now leading an ostentatious five star existence. This is being depicted in TV serials, advertisements and films. The poor and even the lower middle classes, aping this lifestyle are getting indebted and are unable to repay the loans and, therefore, have to curtail other expenditures so that

they remain close to the poverty line even with higher incomes. It is argued that presently, even the poor are having cell phones so they must be better off. But this may not be correct since expenditure on a mobile connection may be at the expense of other essential consumption. It then may not be a sign of improving status of real income but an indication of growing pressure on the family budget of the poor and distress amongst them.

Due to changing perceptions of society and increased tensions, the alcoholism has spread fast, especially among the poor. Similarly, due to drug pushing, many of the poor are now abusing substances and getting addicted. While the former is legalised all over the country, the latter is illegal. But due to widespread corruption it has spread fast, especially among the youth, which is frustrated at the lack of availability of proper jobs. Both these have meant that the poor lose a large part of their family incomes to these habits, leaving less for other necessities. No wonder Gandhi suggested prohibition to protect the poor and the young.

Due to malpractices, spurious seeds and chemicals are sold, which lead to rising cost of inputs per unit of output in agriculture. Further, as the water table has gone down sharply in large parts of the country due to the indiscriminate exploitation of this resource, the cost of wells and water from them have risen sharply. This has aggravated the lot of the small and marginal farmers who are tending to slip below the poverty line due to indebtedness and land alienation.

At times, it is argued that the tribal, the landless and the marginal peasants with their low levels of consumption are outside the ambit of the market, so its functioning cannot affect them. This is an erroneous judgement since they are involuntarily and coercively involved in a one-way relationship from which there is no escape; they are affected by the market but have little influence over it.

In brief, one has to ask what percentage of the population is close to the poverty line, even if above it. They are the poor if not the extremely poor, and in this sense, poverty needs to be defined in terms of a band that changes with time and across regions, and not as a fixed line. Deshpande (2012) suggests on the basis of NSS 66th Round for 2009-10 that if the average consumption is taken state-wise as a measure of poverty then more than 60% of the population in almost all states would be called poor. Further, due to its multi-dimensionality, it is not narrowly economic in character. If that were so, it would be easier to deal with. Hence, technical economic analysis is inadequate to the complex task of poverty eradication by purely economic means. With social change, the nature of poverty is also changing. So, its eradication is like chasing a moving target.

2.2.2 Human Development Index, PPP Valuation and Happiness Index

More recently, instead of income as a measure of progress of individuals, the Human Development Index (HDI) as proposed by the UNDP is being used. It takes into account not only incomes but also other factors of development, like literacy, women's position in society and prevalence of democracy. Indeed, this is welcome. However, all these factors also depend on income levels in society to a fair degree. Hence, it makes some difference but not necessarily a substantial one. Like any index, it also suffers from the problem of weights assigned to each of the components; they have to be based on the social judgment. Unfortunately, at present, it is determined by an international agency dominated by thinkers from the West or under their influence. While they may be correct, it takes away from the autonomy of individual societies to determine their own goals and have their own judgments about what constitutes progress. It is only the tiny nation of Bhutan that has been bold enough to decide to use a "happiness index" rather than a per capita income norm to represent its well being.

The western thinkers dominate the thinking of the developing countries so that they are unable to arrive at their own judgments about these matters. There is also the fear that due to backwardness and / or autocracy the poor countries may assign perverse weights or define development in unacceptable terms. Thus, (a) they cannot be trusted and (b) this would make international comparisons difficult. Consequently, in spite of the social differences, a standard Human Development Index is prescribed (and imposed) to all nations. But why make international comparisons when development is a national issue? All this is consistent with the ruling elite of the developing world's drive to modernise, their viewing themselves through the Western prism and their inability to develop their own understanding of development.

International comparisons become difficult since each country has its own currency, the unit of income. This has forced the search for a standard currency and the one used the most is the dollar, which reflects the clout of the USA and the dollarisation of the world. However, it is argued that this leads to skewed comparisons because while traded goods have one price across countries (adjusted for taxes and cost of transportation) other goods and services are priced differently across countries. Especially because of cheap labour in the developing world, their local currency is taken to be much more valuable. A visit to a doctor may cost ₹ 200 in India but in the US it would be $100. Or a meal at a dhaba would cost say ₹ 25 in India while a visit to a fast food joint (the equivalent to our dhaba) would cost $7. Thus, it is suggested that the purchasing power of currency (a dollar or a rupee) is not reflected by the exchange rate but the purchasing power of a bundle of goods and services and this is termed as the Purchasing Power

Parity (PPP). Obviously then the rupee is more valuable in PPP terms than in dollar terms.

Thus, India's GDP would be higher in PPP terms than in dollar terms. Indeed this is what happens when PPP terms are used. That is why now China is said to be the second largest economy and India the third largest. This also has implications for poverty since with a higher income, poverty is seen to be lower in international comparisons. The poverty line of ₹ 12, instead of being quarter of a dollar, becomes equal to a dollar so that India's poverty line does not look as bad as it seems to be. It provides solace to those who consider India to be not so badly off. Similarly, on the HDI ranking, India is somewhat better off (Table 1.2). How relevant are these to India's own notions of poverty and to international comparisons?

For the poor, since they consume little of services, PPP hardly matters. Their children receive little education because either there are no schools or they provide little education or they have to work for the family to make ends meet. Many of the poor are migrants, so their children are unable to go to school. There are hardly any doctors or health facilities they can afford. They hardly ever use the services of lawyers or go to courts. They have no income to use the services of CAs or even government officials. They hardly ever send letters or use telephones, or save in bank accounts, etc. In other words, they receive little of the inexpensive services on offer. Potentially they could benefit if they had the income but they do not have the income, so these services do not form part of their consumption bundle. It is the well-off in society who benefit from the cheap wages and cheap services. The use of PPP to define poverty does double disservice to the poor (Kumar, 2008a). They are at the receiving end of the low wages (see Section 3.1 below) which they receive and their poverty is said to be less because of it. Thus, PPP terms and the higher value of the rupee are of little consequence to the poor. Their real income is not depicted by the artificial PPP but by the dollar. Most of their consumption is of food and other basics that are traded goods, so that the dollar terms perhaps better reflect their internationally defined poverty.

3. Structure of Employment, Technological Change and Poverty

3.1 Work and Incomes

Poverty in material terms is linked to incomes and wealth. In a Commercialised world, where more and more things have to be obtained from the market at a price (like water) those that have inadequate incomes fail to consume what is considered the "social minimum necessary" and such citizens are

considered to be poor. Income can be derived from two main sources — work and ownership of property. Those who own property earn incomes from it — profit, interest, rent and dividend. In an unequal society like India, ownership of property is also uneven. Some who own a lot of property have large incomes from it and are the rich. However, some have so little property that they earn only small amounts of income from it and need to work to supplement their incomes. For example, the marginal farmers (Chapter VI, Section 4) or the small dhaba owner who works for himself. That is why in India the mixed income category in National Income Accounts constitutes a large category. The vast majority in society earn their primary income from work and they constitute the labour force in society. For them the wage they get determines their consumption (some of it may be out of own production, like, for farmers). The inadequacy of their wage income prevents them from consuming the social minimum necessary and they are the poor in society. Poverty tends to be concentrated among the wage earners. The issue then is why do some have inadequate wage incomes?

Wage income depends on the wage rate or the salary received and on the number of hours (per day or per week) for which the work is available. Some have a contractual appointment and get a monthly salary but this is a small percentage of the total work force. For the vast majority not having such employment getting daily work becomes important. For them, even if the wage rate rises, the number of hours per day of work declines and incomes may remain inadequate. If one has no work (unemployed) one will have no income and would have to depend on someone else. Children below the age of fourteen years are not supposed to work and depend on the family for sustenance. They are not supposed to be a part of the work force. If they work it is illegal and they are referred to as "child labour" (*see* Table 10.2). Similarly, old people are assumed to not work, so those above the age of 59 are not counted in the work force. But if they continue to work beyond this age this is not illegal. Children and the older people are supposed to be dependent on the family and are not counted as unemployed.

Those in the working age group (15 to 59 years), wanting to work and not finding it are counted as the unemployed. However, those from the work force who do not find adequate employment even though they are looking for it are called under-employed. In every Indian town one can see workers gathering at crossings in the morning to seek odd jobs (unskilled and skilled). Some days they get work, some days they don't — this is the casual work force. Those who work with an implicit or explicit contract with a specified timeframe are the regular workers. While the former may suffer from under employment (working only for a part of the day or a part of the week), the latter do not.

Table 10.2

Estimates of Child Labour (1961 to 2000)

Source	Age group	Rural		Rural Total	Urban		Urban Total	Grand Total
		Male	Female		Male	Female		
Census 1961	0-14*	8.16	5.56	13.72	0.58	0.23	0.81	14.53
	5-9*	0.8	0.52	1.32	0.03	0.01	0.04	1.36
	10-14*	7.36	5.04	12.4	0.55	0.22	0.77	13.77
	5-14	8.16	5.56	13.72	0.58	0.23	0.81	14.53
NSS (1972-73) (27th Round) (Usual Status)	5-9	0.88	0.63	1.51	0.05	0.03	0.08	1.59
	10-14	7.78	5.75	13.53	0.8	0.41	1.21	14.74
	5-14	8.66	6.38	15.04	0.85	0.44	1.29	16.33
NSS (March 1978**)	5-9	0.88	0.63	1.51	0.05	0.05	0.1	1.62
	10-14	7.96	5.21	13.17	0.94	0.53	1.47	14.62
	5-14	8.84	5.84	14.68	0.99	0.58	1.57	16.25
Census 1981	0-14	7.34	5.21	12.55	0.76	0.29	1.05	13.59
	5-9	0.9	0.64	1.54	0.06	0.06	0.12	1.66
	10-14	8.4	5.59	14.03	1.07	0.6	1.67	15.7
	5-14	9.34	6.23	15.57	1.13	0.66	1.79	17.36
1985**	5-14	-	-	-	-	-	-	17.58
1990**	5-14	-	-	-	-	-	-	18.17
2000**	5-14	-	-	-	-	-	-	20.25

(Source: Statistics on Children in India Handbook 1998, National Institute of Public Cooperation and Child Development.)

Note:

* Estimates for the quinquential age-group are based on a special study vide Appendix V of the Report of the Expert Committee on Estimates of Unemployment, Planning Commission, 1970.

** Projections for 1978 and 1983,1985,1990, 2000 based on usual status rates of NSS 2nd round (1977-78).

Literature distinguishes between the labour force and the work force. Every able bodied person who can work is counted in the "labour force". However, many do not offer their services to work since children may be studying and women may not go to the market to work because of house work or the societal norms of that section of society. Those who offer themselves for work in the market are counted as the "work force". Women looking after the family are also doing strenuous and useful work but are not counted in the labour force or the work force. These factors result in many distortions in the understanding of employment and unemployment and of poverty (*see* Kumar, 2006c).

The work force is further divided into the "organised" and the "unorganised" sectors. Often this is also referred to internationally as the "formal" and the "informal" work force. In the organised sector, labour has some protection against arbitrary actions of the employers and this is not only due to the legally enforced contract signed between the employer and the employee but also because of the trade unions of which the workers are members. Trade unions are needed by workers because they are in an unequal position *vis-a-vis* the employers who have financial, political, bureaucratic and other clout. The organised sector workers can fight to protect their real incomes from eroding during inflationary periods or from arbitrary actions of the management. They are also given protection / amenities under the various state laws, like retirement benefits, health benefits, hygienic working conditions and safety precautions. Unfortunately, due to fraud and corruption, even the organised sector workers have to be constantly on their toes to see that they are not denied these rights.

Workers in the unorganised sector face adverse working conditions and are uncertain of their tenures, so they cannot easily protest. "Hire and fire" is routine practice in this sector and often wages are less than the state fixed minimum wages. Their working conditions are poor with few safety precautions observed (for example, in the case of toxic work like, spraying pesticide in fields or recycling computer waste or old batteries) and long working hours (one can see children working from morning till midnight at dhabas or courier boys working 14 hours a day).

Data on employment is hard to get and harder still to analyse since there are several definitions of employment (Used in NSSO 27th Round in 1972-73. Also see Sen, 1996). Further, under-employment is not separately counted. Even if a worker gets work for a few hours a day, the worker may be counted as employed, like, in the case of a head load worker or a rickshaw puller. Further, to survive, one cannot afford to stay at home and not seek work, so that even if one is skilled but does not get matching kind of work and instead does unskilled work like, head load work, one is counted as employed. In the absence of social security, a worker has to work at whatever is available. The luxury of not working does not exist for the poor. That is why, in India, unemployment hardly changes but it is under-employment that is significant and changes, but data on this is sketchy.

It is not that the poor do not work hard. They do but for that they receive a low wage. Most of them perform hard labour, the kind that jail manuals in India prescribe for the worst criminals sentenced to hard labour. At times it is said that the poor would prefer jail to living outside since at least they get food for the work they do. It is also argued facetiously that the jail conditions should be daunting enough that the poor do not have the incentive to commit crime so that they can stay in jails and get two square meals. The

poor work in extreme conditions, in heat, cold and rain and for extended periods of time with little food, water or sanitation and their children are often lying or playing in hazardous conditions close to where they work. Thus, it is not (as often the well-off accuse them of) that the poor are poor because they do not wish to work or shirk work. Anyone doing the back breaking work, most of the poor do, would want to shirk work but this luxury is not for them. The accusation against the poor is largely a self-justification used by the well-off sections, perhaps to relieve their guilt at their good fortune of having a good life at the expense of other human beings who are marginalised. It is the well-off who have the luxury of vacations, travel to broaden horizons and the time to be depressed or bored.

3.2. Population an Asset or a Burden on Society

It is often argued that because of rapid growth of population, the fruits of growth get divided up amongst more people and that is why incomes do not rise fast enough and poverty persists. The blame for the nation's poverty is put on the poor themselves. The elite groups, argue that population control is necessary for the nation's prosperity. The question arises whether people can be a burden on the nation?

But it is the people who are the real assets of any nation. They are the ones that create the wealth of the nation from the natural resources. If they are productively employed, they are not a burden and lead to the generation of surpluses and to further development. It is when they are unemployed or under-employed or unproductively employed that they become a burden on society because then they draw upon the output of the rest of society without contributing to it. But don't the well-off also draw massively on the resources of the rest of society while directly contributing little to it?

Population must also be assessed in relation to the resource-base of the country, like, land and its climate. Possession of other resources is also important but even if it possesses few natural resources, (such as in Japan) these can be imported for use in production. However, those nations or areas that are rich in natural resources but where people are unable to use them in production due to low level of technical skills, tend to be poor. Such areas tend to export their natural resources to others while importing from them value-added products (like, in the case of much of Africa) and tend to be under-developed and poor. There are exceptions, like, the petroleum producing Arab nations, which for small populations earn a large incomes from export of oil and can afford a high living standard. By and large, whether nations have natural resources or not and whether they have a high or low population density, it is the skills of the people and the capacity of the nation

to generate productive employment that determines the level of prosperity of the nation. That is why it is argued that the people of a nation are its real assets.

Whether people get productive work or not is a function of the capacity of the economy to generate jobs, which in turn depends on both the growth of the economy and whether that growth generates enough jobs. This, in turn, depends on the choice of technology. Technology may be such that it uses more capital and less labour as is the case with automation, a hallmark of modern technology. Very often, the generation of new jobs is at the expense of existing jobs (labour displacing), such as in the case of automation of banks or digging with bull dozers and mechanical shovels or plowing the fields with tractors. At times, the earlier ways of doing things are replaced by new ones, so that existing employment is replaced by people with different skills. Those who lose jobs also had specific skills but now do not find alternative employment. For instance, those who used to drive horse carriages have been replaced by drivers of taxis. All this points to the need to understand the crucial link of technology with employment and wages (*see* next section also).

It is difficult for individuals in a modern day economy to create jobs for themselves. Most, and especially the poor, lack the capital for it. Marketing skills, technology and availability of finance are major impediments for successfully starting even small scale production of goods or services. Expecting individuals with traditional skills and little of education to deal with all this is unrealistic. Even those with capital, like the land owners displaced by industrialisation do not have the expertise to start businesses, and especially in today's world which depends on "core competency" due to which even big businesses have shed their side businesses and concentrated on what they are good at. Expecting capital-starved and semi-literate people to start successful businesses is a tall order. Incidentally, a few Shri Rams or Ambanis may emerge but then these are the exceptions that prove the rule.

In brief, whether population is a burden or an asset depends on the view society takes of its citizens. Further, it depends on whether policies result in provision of productive work to all its citizens so that they contribute to society or that a large number of them without modern skills and without adequate employment have to be provided for by others.

3.3 Employment Generation and Technology

Rapid modernisation is based on leaps in technology and automation so that for a given production, more capital and less of labour are used (K / L ratio increases). For instance, while earlier hundreds or thousands would have

found jobs on road construction projects, now only a few are employed working with big machines (such as bull dozers and power shovels). Similarly, in agriculture, use of tractors for ploughing and transportation and of harvesters has meant reduced demand for labour. Thus, similar work is being performed with far less employment generation than earlier.

The public is confused about employment generation in new projects. It is told, how many new jobs will be created but never about how many jobs may be lost. For instance, it is argued that creation of SEZs (Special Economic Zones) will lead to X amount of investment, which will lead to Y number of new jobs. However, it is not mentioned how many people who worked where the SEZs would come up would lose their jobs (*see* Chapter IX, Section 3.3). The capital labour ratio of the new investment is not compared to that of the existing production. In the case of SEZs, it is typically, agriculture and associated occupations that would be displaced by modern industry or services, which cannot employ those who are displaced (Kumar, 2008c).

It is also argued that today's modern businesses are sub-contracting out jobs to the unorganised sector (*see* TISS, 2008) so that even if they directly generate few jobs they indirectly generate many jobs. For instance, companies instead of hiring drivers and security men sub-contract the work to transport and security agencies. Thus, it is argued that the decline or stagnancy of employment in the organised sector is compensated by the increased employment in the unorganised sectors.

This needs careful analysis. Employment generation is based on the optimum requirement of the industry — neither more nor less. It is not that a company would generate more jobs because it has sub-contracted it to another company. So, whether directly employed or indirectly, the number of jobs created is unlikely to be different under the two scenarios. However, there is a strong possibility that fewer jobs would be created because of over-exploitation in the unorganised sectors. Not only are the wages a fraction of the wages paid in the organised sector but also the number of hours of work extracted from a worker per day is much more. For instance, while a company driver would have eight hours duty and some over time, a taxi service would extract 16 hours or more of work in a day. Similarly, the security agency would make workers work 12 to 16 hours while a regular employee would do 8 hours of work. Similar is the case for switch of postal services from the government to the courier services with employees working not 8 hours but up to 16 hours. Thus, the number of people getting work is likely to be less and their exploitation much more. The advantage for the organised sector companies is that the wage bill declines. This boosts their profit margins at the expense of the workers. (Kumar, 2007b). It is immaterial that the workers may not get a living wage and their families suffer deprivation.

If the currently advanced countries had adopted today's technology at their early stage of development, say, 150 years back, when they had a per capita income similar to that of India they would also have faced unemployment. In Chapter V, Section 1.3.1, it was pointed out that they developed in a different milieu when they could extract large investible surpluses from the colonies and could send their excess labour to the colonies. Above all, they developed holistically with their technology keeping pace with the needs of society. Technology did not jump way ahead of social development so that there was time (some may say, not enough) to adjust to the requirements of the newer technology. In the Indian context, there has been a large gap between the two and as will be argued in Chapter XI, Section 7.5, this led to a disadvantage of a late start. Many of those who argue against indiscriminate adoption of modern technology are for gradual development and not an outright rejection of technology (not Luddites).

Production requires technology, even traditional agriculture or handlooms represent technological advance. So, can one afford to be against technology *per se*? The argument is for appropriate technology based on the stage of development of a society; for technology to be in step with social evolution. Choice of technology has to be based on the requirements of the entire society and not just that of the ruling elite or of some external markets as is currently the case in India.

It may be asked, why should a society not jump various stages of technology and progress rapidly instead of developing slowly along the path that other societies have traced in the past? Why evolve slowly when it is possible to go much faster?

People and society are not mechanical entities that can be moulded at will — they are historically conditioned and can only change over time. Further, all technologies have unintended consequences, which are different for different societies and these cannot be anticipated. Thus, borrowing / copying technology cannot be mechanical. For instance, in a developing society, which has not yet developed capacity for R&D, borrowing technology may lead to permanent dependence on the more advanced societies by killing the dynamism of that society.

The borrowing society may have to skip certain stages of social development through which the advanced societies passed and in the process it may lead to the under-development of institutions in the borrowing society. For instance, in case of rapid urbanisation the citizens' civic sense may lag behind and lead to a breakdown of the big urban conglomerates as has happened in the big cities of the developing world. Or, take the case of the introduction of television in India at a stage when there was large scale illiter-

acy. This has impacted the reading habit amongst vast sections of society with the attendant disadvantages.

If the borrowing society already had an active R&D culture, then borrowing technology may be advantageous but then it would not have been backward to begin with. A society which understands the cause of its backwardness would be dynamic and able to overcome its drawback with or without borrowing technology. A society which does not understand the cause of its backwardness would lack dynamism and would remain in that state whether it borrows technology or not. It may seem to progress by borrowing technology but its capacity to adapt is the key to whether it would benefit or not. Society has to anticipate technical change and train its population to respond to it. The role of education is crucial and as discussed in Chapter XI, this is where India as a nation has lagged behind. This is another sense in which those against modern technology are not anti-technology or anti-modernisation but want an appropriate choice of the pace of development. They are against it being dictated by external considerations as is happening under one-way globalisation. India is confronted with a weak political will of its ruling elite, which is blindly borrowing technology to modernise in a self-serving manner.

3.4. Employment Generation: The Keynesian and Neo-Classical Views

Standard text book neo-classical economics argues that an economy would automatically adjust and reach full employment unless there is some rigidity which prevents this from happening. Accordingly, if markets adjust freely (without government interference) then they ought to generate full employment of labour. The underlying logic is that unemployment leads to fall in wages so that more labour (less capital) would be employed and full employment would be reached. There is faith in the ability of markets to solve the problem of poverty (*see* for instance, World Bank, 2001).

The neo-liberal economists and their political supporters argue that the organised sector receives protection from "hire and fire" because of unionisation and legal provisions. Further, it is argued that the various laws fixing minimum wages and subsidising the workers in different ways interfere with the market mechanism thereby preventing the market prices from prevailing and that is why there is unemployment. In the Indian context where the vast majority of the work force is in the unorganised sector (93%) and has little legal protection of any kind, employers can fire them at will. Further, they often get less than the minimum wages and do not receive the legally-mandated social benefits. Thus, their remuneration is flexible and it can be

said that the free market is in operation and yet the economy does not offer more jobs to these workers so as to eliminate under-employment in the market. In fact, even in this sector, capital intensity is on the rise. For instance, agriculture has a completely free labour market, employing about 50% of the work force but it is hardly creating any new jobs (Table 6.4). The poor in that sector and elsewhere are forced to generate their own residual employment at minimal wages but the system is not generating jobs for them even at these low wages. Such workers constitute the "reserve army of labour" keeping the overall wages in the economy down.

Keynes (1935) and Kalecki (1971) almost simultaneously came up with a counter argument in 1934, namely, that in a capitalist economy where investment decisions are atomistic and there is no coordination by a government, the economy does not automatically generate the appropriate level of investment to generate full employment and this may happen, if at all, by accident. Most of the time there would be deficiency of demand so that the economy would operate at less than full employment. Keynes and Kalecki argued that the role of government in generating additional demand through spending is crucial.

Even if the neo-classical economists are correct and markets are self correcting and automatically attain full employment, it is not clear that they would do so speedily so that most of the time there would be unemployment. Further, they argue that full employment is defined by technological conditions and other long-term factors so that a certain amount of unemployment (structural unemployment) would have to be accepted. In other words, this level of unemployment defines full employment and "no unemployment" is not the way full employment should be defined. In other words, society should not mind having some per cent of the work force unemployed.

It is curious that while in all matters neo-classical theories give primacy to the individual (consumer sovereignty), in the context of employment, it accepts unemployment of workers and the crisis in their (and the family's) lives as immaterial. The market and the purchasing power of the individuals take precedence (homo-economicus) over the plight of unemployed individuals. In the neo-classical framework, it is not the worker as the person that matters but it is his work and the purchasing power that matters for the market. The neo-classical theory is not about people and individuals but is about certain attributes of theirs, which are important to the market.

NEP are based on the neo-classical theoretical construct (Chapter III, Section 6). Underlying the NEP is the fallacious idea that whatever has not worked or has failed in society or the economy is a result of government intervention. So, the solution to the economic problems is taken to be

reduction of government intervention. While there is some truth in this (Chapter VIII shows the link between the black economy and policy failure), this is not the whole truth. That the government is substantially under the control of big business and private sector and they are interested in manipulating policies and work to subvert it (the Triad), is not taken into account. This is not just true in India but also in the heart of capitalism, the USA. One need only consider the Enron case or the causes of the recent global economic crisis to understand the extent of manipulation of policies there.

Government intervention, which has been crucial for economic development all over the world and especially in India, has been under attack from the Right. It is due to the recent global crisis that the much-reviled role of government in the economy has again come to centre-stage. However, the right wing is not giving up. With some signs of recovery, it is making a bid to reduce the role of government in the economy (*see* Chapter I, Section 1).

3.4.1 Share of Wages in Output and Impact of Unproductive Work

The investment pattern in the economy and its capital intensity (capital-labour ratio) determine where and how many jobs would be created. As discussed above, the technology used also determines how many jobs are lost. The current technology is not only resulting in creation of few jobs but also displacement of many jobs, especially in the unorganised sectors (*see* Chapter XI). This is further marginalising the unorganised sectors, whether in agriculture or services or in the cottage sector where poverty is entrenched. In brief, the investment trends are leading to poverty getting entrenched.

Wages of workers are important since they determine their incomes. As shown in Table 10.3, the share of wages in output and value added of the organised sector, where the workers have some protection, has been falling rapidly since 1973-74. The situation in the unorganised sector cannot be better given that the level of exploitation there is larger. Actually, the share of wages of organised sector workers is likely to be even lower than shown in Table 10.3 because, as argued by Baran (1973), modern businesses employ a lot of unproductive labour, which is not directly involved in production. Further, in India, there is over-statement of wages to generate black incomes (as shown by the Satyam case and Kumar, 2006c). Finally, there are overpaid managers also shown as wage and salary earners who are partly employed to manipulate the environment (political, social, etc.) on behalf of the management.

Table 10.3

Per Cent Share of Wages in Output and Value-added, Organised Industry

Year	*Wages Total*	*Gross Output*	*GVA*	*Wages / Gross Output*	*Wage / GVA*
	In lakhs	*In lakhs*	*In lakhs*	*%*	*%*
1973-1974	1,56,759	1,95,680	5,40,225	8.01	29.02
1974-1975	1,82,292	2,60,990	6,91,553	6.98	26.36
1975-1976	2,14,862	2,98,665	7,34,088	7.19	29.27
1976-1977	2,27,019	3,40,906	8,38,052	6.66	27.09
1977-1978	2,52,735	3,88,602	9,33,930	6.50	27.06
1978-1979	3,03,439	4,43,437	1,10,313	6.84	27.51
1979-1980	3,51,016	5,22,578	1,25,417	6.72	27.99
1980-1981	3,94,469	6,10,840	1,38,456	6.46	28.49
1981-1982	4,39,414	7,36,725	1,67,234	5.96	26.28
1982-1983	5,14,827	8,62,376	1,91,411	5.97	26.90
1983-1984	5,92,077	9,35,329	2,35,205	6.33	25.17
1984-1985	6,75,726	1,05,564	2,49,414	6.40	27.09
1985-1986	7,09,211	1,20,155	2,76,669	5.90	25.63
1986-1987	7,85,046	1,33,043	3,01,990	5.90	26.00
1987-1988	8,93,372	1,53,973	3,45,857	5.80	25.83
1988-1989	1,02,922	1,84,348	4,17,604	5.58	24.65
1989-1990	1,17,956	2,30,659	5,20,368	5.11	22.67
1990-1991	1,31,920	2,70,563	6,15,774	4.88	21.42
1991-1992	1,35,827	2,99,195	6,61,677	4.54	20.53
1992-1993	1,66,607	3,68,613	8,56,709	4.52	19.45
1993-1994	1,75,974	4,25,744	1,04,889	4.13	16.78
1994-1995	2,20,194	5,17,986	1,27,192	4.25	17.31
1995-1996	2,79,703	6,70,514	1,63,023	4.17	17.16
1996-1997	2,90,350	6,92,519	1,70,550	4.19	17.02
1997-1998	3,15,574	8,25,422	1,87,778	3.82	16.81
1998-1999	2,48,263	7,83,770	1,73,726	3.17	14.29
1999-2000	2,63,043	8,97,938	1,88,573	2.93	13.95
2000-2001	2,76,707	9,26,901	1,78,350	2.99	15.51
2001-2002	2,74,382	9,62,456	1,83,229	2.85	14.97
2002-2003	2,96,890	1,13,056	2,14,375	2.63	13.85
2003-2004	3,04,777	1,28,740	2,47,777	2.37	12.30
2004-2005	3,36,350	1,67,256	2,59,906	2.01	12.94
2005-2006	3,76,636	1,90,835	3,11,864	1.97	12.08

(Source: Annual Survey of Industries, Various Issues.)

Note: for the years 2004-05 and 2005-06, the data is for NVA : in the last column, for the last two years it is the Wages/ NVA ratio.

Unproductive labour (of the above kind) is growing in the organised sector. Further, more and more inessential functions are being outsourced to other agencies and these are shown as costs. The wasteful expenditures of the management (entertainment, travel, holidays, etc.) are also shown as cost (Kumar, 1999). All these are ways of lowering the profitability of businesses and evading taxes and their consequence is to lower the share of workers in the output while creating the impression that the share has not fallen as much. In brief, businesses are resorting to more and more waste while the poor are unable to afford even the basics of life. Such generation of employment, which is based on waste and lowering of productivity, is akin to digging holes and filling them (Chapter VIII, Section 6.3).

This raises the issue of what growth means for the poor? Does it lead to an increase in their welfare? Modern society is characterised by tremendous waste, which does not lead to increase in welfare even if it leads to GDP growth (Kumar, 2006d). It results in shortage of resources for the poor so that they remain poor. The burden of waste in society falls on the poor both directly and indirectly through its impact on the environment. It is argued later in Section 4 of this Chapter, that there is a two-way link between environmental destruction and poverty.

3.4.2 Free Markets, Unorganised Sectors and Employment

As argued above, neo-classicals believe that a free labour market would lead to an increase in employment. But it was argued that this only creates a reserve army of labour available to industry to depress wages and increase its share of profits. One need only look at Indian agriculture and the unorganised sector where the market is free. In agriculture, employment is stagnant rather than growing rapidly as suggested by the proponents of free markets. There is inadequate investment in Indian agriculture, which is making the situation worse. Basically, whichever way, the poor have been at the receiving end of the development process. For instance, they have been displaced by development and paid a compensation, but this means little for them since they are not market savvy and most soon lose the money received. The experience of Narmada Bachao Andolan (NBA) and others bears this out.

Technology also has an important link with the quantum and the nature of employment generation (*see* Chapter XI) and also with who will retain employment and who will lose it. Thus, it affects the total employment and the wage structure, both of which then determine the extent and nature of poverty. This is clearly illustrated by what is happening globally and nationally in the case of agriculture, which is still the dominant employer in the world. Technological change may produce employment but also displaces it.

The net effect is important. This depends on the direct and the indirect effects and their total effect on employment elasticity.

The existence of a reserve army of labour weakens the workers and especially those in the unorganised sectors by keeping an excess supply of labour so that they are unable to demand higher wages. Their poverty and lack of gainful employment is used to keep their wages low. Their loss is the gain of others. In the capitalist system, the surplus is in the hands of the employers and it increases if wages can be kept down. In the case of the craftsmen or tribals selling forest produce, the surplus is drained out of their hands by the traders and the middlemen. In effect, the rules of sharing the economic gains of society are against them.

The lack of skills of workers in the unorganised sectors due to inadequate education works against them. The rural elite has often argued against schooling for the children of the poor on the plea that then who would do their menial work, like tending to cattle. No doubt, productivity in the unorganised sector is low but it is not that the workers in this sector are paid according to their productivity, given their low bargaining power. The lack of mobility of workers of this sector (in spite of farm labour now migrating all over the country) also goes against them. Further, their inability to get justice and poor governance all around work against their interest.

An aspect of the problem is that the unorganised sector as a whole is weak because of the small size of the production units and lack of bargaining power (*see*, Chapter VI, Section 5.3). The businessmen running these enterprises are squeezed by the traders or the larger firms for whom they are ancillary suppliers. The terms of trade mostly move against them so that they squeeze those they can, namely their workers, by paying them as little as they can.

For the workers as a whole, whether in the organised or the unorganised sectors, the wage they get and the amount of work they can find are set by factors outside their control and beyond their understanding. The macroeconomic factors — inflation and nature and extent of employment they can find and technology — are stacked against them. The currently ruling economic philosophy — marketisation — marginalises them.

While the workers are ill-paid, the employers using their monopoly positions pay themselves exorbitantly high incomes, especially after the launch of NEP in 1991. Prior to that, the upper ceiling on corporate salaries was ₹ 3,12,000 per annum (not counting certain perks) when the per capita income was ₹ 6,100 — a multiple of 52. In 2007, top corporate salaries were upwards of ₹ 30 crore, a thousand times more than in 1991 while the per capita income went up to ₹ 29,600 so that the multiple became greater than ten thousand. The multiple of top salaries with respect to the minimum wage or poverty line has gone up even more sharply. Finally, incomes from owner-

ship of capital have gone up even more sharply. In brief, while not eliminating poverty, society has allowed the rich to become very rich. No wonder, the nation boasts of having one of the highest numbers of billionaires in the world.

3.4.3 Rural Employment

Rural India still has 69% of the population in 2011. It is almost completely dependent on the unorganised sectors with agriculture being the predominant sector of its economy. Since these two components of the economy have been lagging behind the others, rural-urban disparity has greatly increased after independence (Table 9.5). Further, poverty is entrenched in these two components, so that rural areas are also characterised by higher incidence of poverty (Table 10.4). As mentioned above, due to:

(a) low levels of investment in agriculture, and
(b) rising degree of mechanisation, there has been inadequate generation of employment in agriculture so that:

- wages remain low,
- there is pressure to shift to off-farm jobs, and
- migrate to urban areas.

Table 10.4

Poverty Ratios over Time by States 1973-74, 1993-94 and 1999-2000

State	Rural			Urban			Combined		
	1973-1974	*1993-1994*	*1999-2000*	*1973-1974*	*1993-1994*	*1999-2000*	*1973-1974*	*1993-1994*	*1999-2000*
Andhra Pradesh	48.41	15.92	11.05	50.61	38.33	26.63	48.86	22.19	15.77
Arunachal Pradesh	52.67	45.01	40.04	36.92	7.73	7.47	51.93	39.35	33.47
Assam	52.67	45.01	40.04	36.92	7.73	7.47	51.21	40.86	36.09
Bihar	62.99	58.21	44.30	52.96	34.50	32.91	61.91	54.96	42.60
Goa	46.85	5.34	1.35	37.69	27.03	7.52	44.26	14.92	4.40
Gujarat	46.35	22.18	13.17	52.57	27.89	15.59	48.15	24.21	14.07
Haryana	34.23	28.02	8.27	40.18	16.38	9.99	35.36	25.05	8.74
Himachal Pradesh	27.42	30.34	7.94	13.17	9.18	4.63	26.39	28.44	7.63
Jammu & Kashmir	45.51	30.34	3.97	21.32	9.18	1.98	40.83	25.17	3.48
Karnataka	55.14	29.88	17.38	52.53	40.14	25.25	54.47	33.16	20.04
Kerala	59.19	25.76	9.38	62.74	24.55	20.27	59.79	25.43	12.72
Madhya Pradesh	62.66	40.64	37.06	57.65	48.38	38.44	61.78	42.52	37.43
Maharashtra	57.71	37.93	23.72	43.87	35.15	26.81	53.24	36.86	25.02
Manipur	52.67	45.01	40.04	36.92	7.73	7.47	49.96	33. 78	28.54
Meghalaya	52.67	45.01	40.04	36.92	7.73	7.47	50.20	37.92	33.87

(Contd. . .)

Table 10.4 *(. . .contd)*

State	Rural			Urban			Combined		
	1973-1974	1993-1994	1999-2000	1973-1974	1993-1994	1999-2000	1973-1974	1993-1994	1999-2000
Mizoram	52.67	45.01	40.04	36.92	7.73	7.47	50.32	25.66	19.47
Nagaland	52.67	45.01	40.04	36.92	7.73	7.47	50.81	37.92	32.67
Orissa	67.28	49.72	48.01	55.62	41.64	42.83	66.18	48.56	47.15
Punjab	28.21	11.95	6.35	27.96	11.35	5.75	28.15	11.77	6.16
Rajasthan	44.76	26.46	13.74	52.13	30.49	19.85	46.14	27.41	15.28
Sikkim	52.67	45.01	40.04	36.92	7.73	7.47	50.86	41.43	36.55
Tamil Nadu	57.43	32.48	20.55	49.40	39.77	22.11	54.94	35.03	21.12
Tripura	52.67	45.01	40.04	36.92	7.73	7.47	51.00	39.01	34.44
Uttar Pradesh	56.53	42.28	31.22	60.09	35.39	30.89	57.07	40.85	31.15
West Bengal	73.16	40.80	31.85	34.67	22.41	14.86	63.43	35.66	27.02
Andaman & Nicobar Islands	57.43	32.48	20.55	49.40	39.77	22.11	55.56	34.47	20.99
Chandigarh	27.96	11.35	5.75	27.96	11.35	5.75	27.96	11.35	5.75
Dadra & Nagar Haveli	46.85	51.95	17.57	37.69	39.93	13.52	46.55	50.84	17.14
Damman & Diu	N.A.	5.34	1.35	N.A.	27.03	7.52	N.A.	15.80	4.44
Delhi	24.44	1.90	0.40	52.23	16.03	9.42	49.61	14.69	8.23
Lakshadweep	59.19	25.76	9.38	62.74	24.55	20.27	59.68	25.04	15.60
Pondicherry	57.43	32.48	20.55	49.40	39.77	22.11	53.82	37.40	21.67
All India	56.44	37.27	27.09	49.01	32.36	23.62	54.88	35.97	26.10

(Source: Planning Commission.)

A large number of rural jobs that are not directly in agriculture are also linked to it since they provide services to agricultural operations or process agricultural produce. Carpenters and iron smiths to make and maintain implements, oil extraction, gur production and weaving to use the agricultural produce for consumption and so on. There are others who dig wells, maintain tractors, along the highways operate repair shops or eating places (dhabas), etc. A large number of off-farm jobs are dependent on the health of the agricultural economy so that a crisis in the latter results in a crisis for the former.

As pointed out in Chapter VI, due to the sub-division in the farms, their average size has been going down all the time so that the size of land available for an average farming family to maintain itself has been going down. Those who have the capital have moved to planting high value crops or have started poultry, etc. but this is not possible for all. There is a process of differentiation amongst the agricultural families. Those at the bottom rung need to use their children to work to make two ends meet. Hence, rural areas are characterised by substantial child labour. These children without formal

education (they may get skills while working) are mostly locked into poverty from the beginning. Many have sold their small plots of land and become landless workers.

The work in agriculture is often strenuous compared to many of the urban organised sector jobs but the wages are low as mentioned earlier. This is leading to a pull amongst the youth to shift from agriculture to non-agriculture and from rural to urban jobs. In the urban areas also, it is the services sector which has expanded the fastest and employment generation has taken place there but again it involves long hours of work in the unorganised sectors. So, the rural migrants do not experience much of an improvement in their lives in spite of the apparently higher incomes they are able to make in the urban areas. Poverty only changes its form from rural to urban.

There are doubts about how much employment is being generated in the economy. Kumar (2006c) points to the overstatement of employment and wages to generate black incomes. While muster roll fudging in rural works and amongst temporary employees of firms has been known, Satyam showed how systematically industry practices this and recently the Municipal Corporation of Delhi (MCD) has been found to have tens of thousands of fake employees on its rolls. These are pointers to the likely large errors in data on employment. This is true both for the unorganised and the organised sectors and the public and the private sectors. While it may be argued that the data is collected independently of these fudges, what is true is that when fudging is done on a large scale it leads to biases in data. Thus, if the argument here is correct, the distress of the workers in India is greater than emerges from the data.

4. Specific Issues Relating to Poverty and Inequality in India

4.1 Growth, Investment and Poverty

Some economists argue that growth alone will take care of poverty — implying that distribution need not be a concern of policy. They argue that the policies before 1991, which paid attention to income distribution (so called socialistic policies) had failed, and had to be given up. In the neo-classical framework, focus is on "efficiency" (not technological but market) and not on distribution since in this framework policies for redistribution are not available.

According to this framework, it is better to create wealth and let it "trickle down". Can this work? As argued in Chapter III, this idea has created problems in India in the last sixty years. In the case of the currently

fastest growing economy, the Chinese, it has resulted in growing disparities and environmental degradation and it is not clear that people are rising above the poverty line redefined in the current context. According to Piketty and Saez (2003) in the US also, disparities are greater today than they were in the 1920s and the poor face difficulties, which are further aggravated by the persisting large unemployment due to recession brought about by the global financial crisis of 2007-08.

The logic underlying the argument is that it is easier to generate incomes and distribute them than to redistribute the existing wealth. This is due to the political implications, namely the elite who are expected to lose from the policies resist strongly and because they are the rulers, they can thwart policies. Thus, redistribution is a question of the will of the ruling classes. Currently, they are pursuing the strategy of "growth at any cost" and making massive gains in incomes and doing so unhindered by any guilt towards others in society or the need to make society more equitable. Why should they give it up especially because they are also able to manage the politics around it even if it faces challenges? Under this philosophy, with income distribution no more a concern, the marginalisation of the poor is complete. The investment pattern being pursued is capital intensive with little net employment generation in spite of massive investment.

Indian rulers have argued since independence that trickle down will take care of poverty (*see* Chapter III). In choosing this path of development they marginalised Gandhi and his bottom up approach. They were in a hurry to modernise and westernise and the poor were marginalised. There is a need to reverse this inherently undemocratic trend. Indian experience is that growth alone would not do, equity is a precondition for a civilised social existence.

In India, growth is concentrated in non-poor sectors and in the better-off regions so it only marginally impacts poverty. Currently, the services sector is growing at around 9.5%, constituting about 60% of the economy but employing only about 30% of the work force. In contrast, agriculture employs about 50% and contributes about 15% of GDP and is growing at around 3%. Since the services sector is concentrated in the urban areas and in some of the advanced states, the sectoral growth trend is leading to a sharply growing disparity between agriculture and non-agriculture, rural and urban areas and backward and forward states. In per capita terms, in 2003-04, Bihar was at ₹ 5,780 and Maharashtra and Haryana at ₹ 29,500 giving a ratio of 1:5. If Delhi and Chandigarh are taken as representatives of the richer urban India with a per capita income of ₹ 55,000 and Bihar as the representative of rural India, then the disparity would be about 10:1 and the gap is growing.

Investment and jobs go together and how many jobs will be created by a given investment depend on the technology. In Kumar (1994a), it was pointed out that if one considers the top 20 MNCs in the world according to

their output, they produced in 1990 an output 6 times that of India but employed only 5 million people which was 1 / 60th of the employment in India. Hypothetically then only 1 million Indians would be required to produce the entire output of India if the economy was to be handed over to these top MNCs. However, given the distinction between value-added and value of output, the number of people who would get jobs would be not 1 million but perhaps 6 million. Even then, this would mean that only 2% of the employed would find work. The rest would become a part of the reserve army of labour. This is indicative of the nature of technology and management practices of the MNCs. Also, this is a pointer to the path India has set for itself since 1991.

The nature of technological change in the world is determined by the global interest of capital and that of the advanced nations and their elite. When the Indian capitalists import such technology in the name of modernity but effectively for their own self-interest, they marginalise the others even more sharply. As argued earlier, technology has the potential to uplift people but only under specific conditions. The way it is being used currently, it is leading to centralisation of control in the hands of a few nations, companies and people. The instrumentality used for this purpose is finance, which is even more centralised. Technology and finance, in the name of modernisation, become the political instruments of marginalisation of the marginals. An expression of this is the massive flow of investment in modern technology (and in the face of the need to modernise, who can object to it) to the exclusion of employment targeting.

The investment pattern internationally is also determined by the above mentioned factors. Investment flows from the MNCs into the developing world are designed to strengthen their own control over markets and are not motivated by any concerns for employment generation in the developing world. Yes, investment brings with it employment, yet, as argued earlier, it also destroys employment and we have to look at the net employment generation, and in this there are problems, as argued earlier. There is also an emerging international division of labour (*see* Chapter VII, Section 3.4) where low and intermediate technology, which is more polluting, is getting concentrated in the developing world with its lax standards while the advanced and clean technologies are in the hands of the advanced nations. This has serious environmental consequences and impacts poverty. Dirty production, like recycling of computer waste or of lead acid batteries or ship breaking is mostly located in the developing world. This is having serious consequences for the health of workers. Even at higher incomes, they then fall below the poverty line. Their families suffer and even more so due to the rising costs in the health sector due to its rapid privatisation.

With liberalisation, investment decisions have passed on largely into the hands of the private sector and the markets so that employment generation has been relegated to an even more inferior position. Government is indulging in palliatives through its schemes (*see* Section 4.4 of this Chapter) since it is not eliminating the root causes. In a democracy it is important to appear to be concerned even if one is not going to do anything about a problem and the ruling parties are precisely doing that. As argued earlier (Section 3.4), the retreat of government weakens labour further and due to a decline of employment generation with the adoption of modern technology, a reserve army of labour is created, which helps businesses keep wages down. The opposition of employers to government intervening in the labour markets has been voiced even by the farmers. They complain that due to the government's employment creation schemes, wages rise leading to increase in costs. Under capitalism, there is a zero sum game, namely, if the capitalists get a higher share it has to be at the expense of the workers. Even if the workers get a higher real income, they may get a lower share of the national income. Of course, it is also possible that they get a lower real income because of their weak bargaining position.

In brief, to argue that growth will take care of poverty, while distribution does not matter is another technical fix that is unlikely to help reduce poverty. There is targeting of investment and technology, so that employment is a residual. This was true even before 1991 when the state was in control of the economic processes but with the retreat of the state the situation has worsened. Even though poverty requires greater state intervention in the labour markets this is not forthcoming in spite of schemes, like MGNREGS.

4.2 Inequality Leading to Greater Inequality

India may broadly be divided between the advanced and the backward sectors with vast inequality between the two and poverty entrenched in the latter. This is often emotively referred to as the divide between "India and Bharat". The former uses much larger amounts of capital per worker than the latter resulting in large productivity differences between them and leading to the high income differential between them. These economic differentials are accentuated by "India" having control over political power and formulating policies in its own favour. The result is that there are two circles of development which interact unequally and where one dictates and the other is a residual so that there is a dichotomy between them.

In this scenario, poverty elimination would require the development of the backward sector where poverty is entrenched. Would this be at the expense of the well-off and their consumerist life styles — a zero sum game? Would this strategy lock the country into low technology and permanent

backwardness? Unlikely, because the developed countries also had low levels of consumption and simpler life styles when they were at the stage of development India today is in. They advanced gradually and more holistically to reach their current stage. Can the presently lagging economies also do that and develop slowly but more holistically?

Those in the advanced sector control resources through production, technology, finance and, above all, by control over politics. They now have a dominant share of the resources (*see* Chapter V, Section 4) and not only want greater control over them but feel that is their legitimate due from society. They feel they are the dynamic component of the economy, which is fueling growth so they legitimately want a higher share of the income. By international comparisons, they feel they are under-paid and should get more. They extract concessions from society (lowering of taxes, control over natural resources and subsidies) for keeping growth going. They threaten to vote with their feet and go abroad to earn higher salaries (which they do anyway). They argue that their skill is a result of their own efforts and they deny the contribution of the collective to their development and in an atomised environment, this appears to be true. They ignore the fact that scarce resources were spent on their training and education by the state and this was at the expense of the poor and the marginalised. In a privatising world the role of the collective has diminished, so this belief may appear to be legitimate. The net result of these attitudes and actions is the rapidly growing disparities in the country with inequality leading to more inequality.

The present growth strategy based on "growth at any cost" is resulting in dependence on the small elite class for growth. They are the savers and their demand pattern the driving force for growth. Since their growth is highly capital intensive, it requires large infusion of capital, so foreign capital has to be invited and internal savings generated. To generate internal savings, income distribution has to be shifted towards the well-off sections and they have to be given large concessions. The advanced sector is also based on modernisation based on growing urbanisation. As discussed in Chapter IX, Section 3, concentrated urbanisation is resulting in further increase in disparities because it is both capital and energy intensive.

Such a narrow growth path is unstable since it is dependent on the actions of a narrow section of the population. It results in the retreat of the state (in favour of capital) and, therefore, in its inability to intervene effectively to stabilise the economy. The growth strategy has changed the nature of internal debate by marginalising equity as a concern and reducing the importance of poverty removal in the minds of the rulers (and even others). Thus, the concern for high quality education for all children, which would at least theoretically give everyone an equal chance is now marginal. The excuse given is that there is a shortage of resources but when it comes to the con-

sumption of the elite, resources are not found to be short. Further, this growing inequality along with the demonstration effect and rising commercialisation is raising the minimum necessary social consumption and making poverty removal more difficult.

The alternative to this dichotomous growth would have been Gandhi's suggested path of development from below — policies based on equity. This would have been a positive sum game and would have enabled the nation to go through the 200 years of development in a holistic way without jumping stages. It would have involved taking advantage of developments in the advanced countries while learning from their mistakes (rather than copying them). The gap in technology and capital intensity between the advanced sectors and the backward sectors would have been minimal. Individual consumption would have been replaced by collective consumption.

For instance, focus on high quality education and gainful employment to all would have meant that disparities would have been less and no one would have been privileged over the others to demand further concessions for growth. This would have been a policy based on development from below and not trickle down. It would have changed the nature of development and the terms of the debate in the country. Would this have led to lower growth than at present? Not necessarily.

Demand in the economy would have been led by mass consumption goods and collective goods so that it would have been broad-based instead of being focused narrowly on luxury goods (*see* Kumar, 1994a). This would have led to focus on local production with lower levels of technology, and, therefore, would have been employment intensive. Growth would have been based on expansion of education and health infrastructure, which are labour intensive and further resulted in large productivity increases and flowering of creativity — a more civilised life for all.

The amount of capital needed to produce a unit of output would have been less so that investment requirements would have been less, which the local economies and government together could have raised. Thus, the need to import capital or give large concessions to the well-off sections to raise the savings rate (as at present) would not have been required. Large-scale industry would have been limited to a few critical areas with scale economies. Greater imports of essentials may have been required to meet mass demand but these could be financed through normal exports and savings in foreign exchange due to lower imports of luxury goods, capital and energy. Under the changed circumstances, production of mass consumption goods would have risen and appropriate technology development would have taken place (as in the case of Green Revolution in agriculture when the need arose). R&D capabilities could have been simultaneously developed starting from a low base to absorb and develop relevant technologies.

In the present situation, can reservations help the backward sector to develop? Say, reservations for the small and cottage sectors and for the SC and ST or the backward sections. It could, if reservations had genuine content rather than being formalistic. The large and medium sectors have taken advantage of the reservations without imparting the dynamism that would have helped the small scale sectors to escape their marginalisation. Similarly, reservations in jobs and education have not helped the deprived sections gain dynamism and the capacity to escape from their predicament.

In brief, the current policies and the development path adopted by the nation since 1947, have resulted in dichotomous development in two separate weakly inter-linked vicious circles leading to growing inequality and entrenched poverty. As already argued (*see* Section 2.2.1 above), rising inequality and consumerism lead to an increase in the "minimum necessary consumption" in society and thereby to a rise in the poverty line leading to poverty remaining entrenched in society.

4.3 Inflation and Poverty

Inflation refers to increase in prices of goods and services. It tends to redistribute incomes from those with fixed incomes to businesses. An extra rupee paid at a shop is extra revenue for the shopkeeper and a reduction of the purchasing power of the consumer. The real income of wage and salary earners is their money income divided by the price level they face. In other words, how much is their money income worth in relation to what they need to buy. If incomes rise alongwith prices, then the workers are not worse off but often there is no direct link (called indexation) between increase in prices and the incomes of workers. Thus, as prices rise workers not only lose share in national income but also their real incomes decline. This is especially true for the unorganised sector workers who have little bargaining power to have their incomes indexed to prices. Often, they do not even receive the government-determined minimum wages based on the officially-determined "minimum necessary social consumption". A large number of those employed in the unorganised sector live at the edge of survival and have little leeway to lower their consumption, consequent to loss of real income. As a result, social distress increases in society as prices rise. That is why in India a 10% rate of inflation is considered to be high whereas in many other societies where there is social security or a tiny unorganised sector, even a three digit inflation does not cause upheavals like in India.

Inflation must not be confused with the price level since it is the increase in price level over time (so, it is a rate) and is officially measured in India by the increase in the wholesale price index (WPI) over a year (*see* Graph 3.2). Hence, it is referred to as the annual rate of inflation at any point of time.

Thus, a fall in the rate of inflation does not mean that prices start to decline but it means that they are now rising less fast.

But, increasingly the WPI-based inflation is unrepresentative of the inflation experienced by the consumers (*see* Kumar, 2006d). The reason is that WPI represents the price level relevant for the producers who purchase in the wholesale markets. Consumers hardly go to the wholesale markets. Instead, they go to the neighbourhood shops where they pay the retail or consumer price. So, for them, it is the Consumer Price Index (CPI) that is relevant.

However, consumption by different categories of consumers (called, consumption basket) is different so that the prices relevant to the consumption of the poor are different from those of the middle class or the rich. In other words, there have to be different Consumer Price Indices (CPI) for each category, like agricultural workers or white collar workers. The use of CPI to determine the rate of inflation runs into another problem, namely it differs from city to city and region to region. In other words, it is highly heterogeneous and unlike the WPI, it is hard to have one all-India index.

Even if heterogeneity could be tackled, there is an even more basic problem, namely just like the WPI is not representative of the actual inflation faced by the people, even CPI is not representative. The component of services in WPI is zero while in CPI it is about 16% while in output, the weightage of services is now 60%. Thus, there is a complete mismatch between the consumption bundle considered for inflation and the actual consumption of the various categories of people in the country. While some of the producer services may be accounted for in the final price of consumer goods and, therefore, a change in their prices may be captured but many of the services are consumed for their own sake (banking or eating in a restaurant or use of telephones or sending children to school) and are not captured as a part of some other final goods prices.

Further, why the different treatment for goods and services? Many basic goods (such as cement or steel) also enter production of other goods (such as housing or utensils) but their prices are separately taken into account in WPI. Parity between all classes of goods and services should imply that in any new inflation index all services should be included. The government is attempting to modify the inflation indices to take into account these problems. The difficulty is in choosing representative centres for collection of data on prices and then deciding on how many commodities and services to collect data on?

There are two further problems: (a) the different consumption baskets for different categories of people, and (b) the heterogeneity of the products with different prices in different markets for different classes of people. Say, the soap used by different classes of people are different and are priced differently and depending on the market one buys them from they may have a

different price. For instance, in an upmarket they would sell at the listed maximum retail price (MRP) and elsewhere the same product would be available at a cheaper price. Further, dals and vegetables bought from government-run shops (Kendriya Bhandar and Mother Dairy) are much cheaper than from the private shops. The heterogeneity is compounded by the sale of cheap spurious goods on a large scale — medicines, fake labelled products, pirated software and DVDs, etc. flood the markets. There is also large-scale adulteration of food items (like milk) so that one price cannot capture the quality differential.

The problems are compounded by the rapidly changing consumption basket under pressure of consumerism and the process of privatisation (*see* Section 2.2.1 of this Chapter). Even when they have inadequate incomes, to keep up with the Joneses, the poor may consume goods and services that they can ill afford (like mobile phones and TVs) and divert consumption from essentials. Alternatively, they are forced to take loans at high interest rates (from credit card companies, finance companies or private sources), which often results in rising debt leading to a decline in consumption in the years ahead.

Finally, as privatisation has taken place prices of many goods and services — energy, food, education, water, health and transportation — have risen sharply as state support and subsidies have been withdrawn / reduced. Some of these increases are not captured in the price indices since the source of price data has hardly changed. For instance, if the young shift from drinking "chai" at the dhaba to an upmarket restaurant, then the price increase does not get captured. Further, even though telephone tariffs have declined sharply, total expenditure on telephone and internet have risen rapidly due to increased usage. This creates the paradox of a falling inflation rate while the family budget is increasingly strained by these new items of consumption.

The increase in school tuition fees, expenditure on coaching, emphasis on learning English, the growing tendency of charging capitation fees for admissions and the rising cost of books, have added to the burden on the families — even of the lower middle classes — none of this is captured in any inflation index. Prices of government services have also risen due to cut back in subsidies so that the prices of many items are now closer to the market prices. In many cases, user charges have been levied.

How does all this affect the very poor? Their consumption basket has not changed much since there is no leeway for that. They have no access to formal credit and can only go to the local money lenders who charge exorbitant rates so nothing frivolous is feasible. Therefore, the old WPI or the CPI for workers possibly captures the inflation that these people face better than a reformed index of inflation, which would have many more commodities and services that are not consumed by these people. Do they consume the privatised health and education services or more energy and transportation? Not much, but re-

ports are that they are being forced to go for privatised health due to the paucity of public facilities (Chapter IX, Section 7). They hardly use education services since their children are forced to work, But, they are affected by energy and transport costs going up since getting free firewood is now more difficult and especially in urban areas to that they now depend increasingly on commercial energy, like kerosene. They also need transportation to get to work or when migrating in search of work and pay a higher price.

As discussed earlier (Chapter V, Section 4), inflation is a result of (a) the excess draft of the elite sections on the national resources due to their rising consumerism, (b) energy and capital intensive development path chosen by the country, and (c) the path of modernisation, which has neglected agriculture in favour of the non-agricultural sectors.

While the first causes shortage of resources and mismatch between savings and investment, the other two lead to cost-push inflation during shortages, like in a drought year or when energy prices rise due to global crisis. All these three factors have resulted in periodic bouts of high inflation (Graphs 3.2 and 3.3), which have resulted in adverse consequences for the poor.

In brief, inflation redistributes incomes from the workers to businesses and aggravates poverty. The non-representative character of the official inflation index, the changing composition of consumption in the country amongst the different classes, availability of new products and the impact of consumerism on almost all classes is making the task of capturing the true inflation difficult. The government uses this complicated situation to present statistics so as to show itself in a favourable light. Consequently, there are repeated changes in the way poverty is defined and how many poor there are in the country. For instance, the government reduced the poverty line for rural areas from ₹ 26 per day to ₹ 22.43 and in urban areas from ₹ 32 per day to ₹ 26.65. This led to a decline in poverty ratio from 37.2% in 2004-05 to 29.8%. If all this is not window dressing then what is?

4.4 Government Policies and Poverty

Markets by themselves cannot eliminate poverty since they not only do not correct income distribution, but they also marginalise the poor who lack purchasing power. It is only policy that can help the poor by providing the correctives to the outcome of the market functioning. The impact of policy or lack of it was evident during the colonial rule when the interest of the colonial power was paramount and the poor were marginalised so that their socio-economic conditions deteriorated. The situation changed with independence when a large role was given to the government to help improve the socio-economic situation in the country.

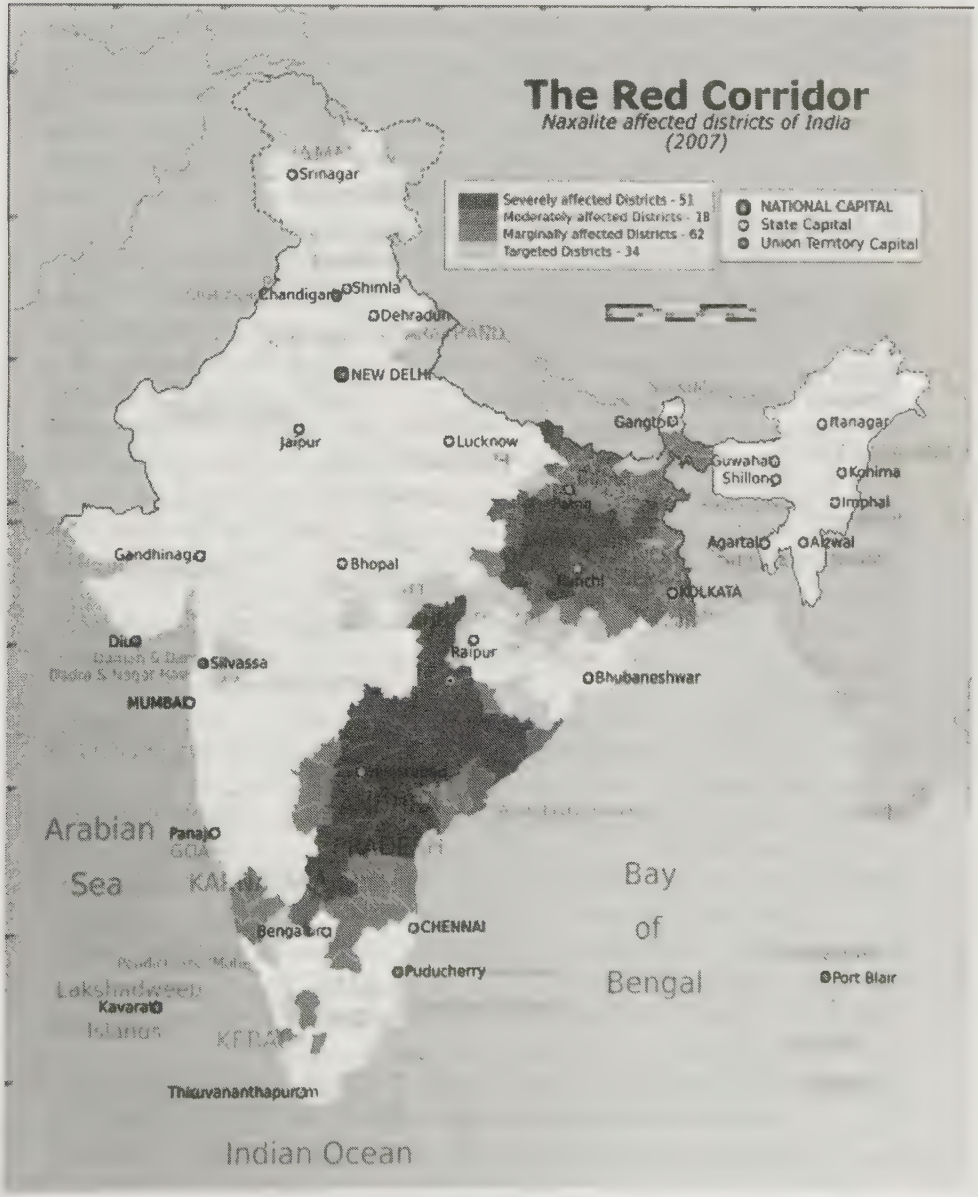
Government policies are critical for any fight against poverty. For instance, since the bulk of the consumption of the poor is food, a decline in food prices results in an increase in food consumption and a lowering of poverty and *vice versa*. Policy, like PDS, has a strong bearing on food prices. Similarly, wages and employment are dependent on policies, like taxation and subsidies.

Policies can and do have a differential impact on various segments of the population. For instance, Green Revolution led to increase in productivity in agriculture and to increased food production in spite of little expansion in land under cultivation. However, it also led to increased concentration of land and production in the hands of a few and to rising capital intensity due to labour displacing technical change. Even if hourly wages increase, the total amount of work available to a worker in agriculture may decline. While the well-off farmers with capital and irrigated land definitely benefited it is unclear that the marginal farmers with little capital or irrigation derived much benefit leading to a differential impact of policy.

After independence, policies have been based on trickle down (*see* Chapter III) so that the poor have benefited little. It is due to the functioning of a democratic system that periodically pressures have built up and policies have been forced to focus on poverty removal — directly or indirectly. Right up to the Fourth Five Year Plan, the focus was indirect. From the early 1970s, there was emphasis on direct attack on poverty with Mrs. Gandhi giving the slogan of "Garibi hatao" and using bank nationalisation to push more credit to the rural areas so as to help Green Revolution. However, this lasted till 1975 when Emergency was imposed. Even though, for populist reasons there was formal talk of poverty amelioration, the focus shifted with the rise of Sanjay Gandhi to the Right with greater support to private business. The ascent of the Janata party to power in 1977 with a mix of socialists and the right wing in the country, led to further dilution of the pro-poor stance of policy. In the 1980s, policies started moving rapidly in favour of businesses with Indira Gandhi opening the doors to consumerism and Rajiv Gandhi reducing emphasis on equity in society. His inexperience led him to talk of making India technologically dynamic by 2001 while concerns regarding poverty removal receded to the background — trickle down in its true sense. In 1991, with the launch of NEP, even the lip service paid to poverty removal till then was given up.

It was in 2004, with the coming of the UPA which depended heavily on the Left for its survival, that again some poverty removal programmes were pushed. The pressure of the growing Maoist movement has had a major impact on policy. The Home Ministry suggests that the number of districts affected by the Maoist movement has increased from 55 in 1991 to the 165 districts in 2007 (*see* Map 1). Some argue that this is an overstatement of the

threat so that the Ministry of Home can initiate more authoritarian control over the civil rights movements going on in some of the heartland states against indiscriminate privatisation of natural resources. For instance, the movement against police atrocities in Lalgarh is branded as a Maoist movement. Earlier the people's movement against SEZs in Nandigram was also characterised as Maoist.



Map 1: **The Red Corridor — Naxalite affected districts of India (2007)**

Be that as it may, currently, the panic in the Indian state is palpable with the PM repeatedly stating that the spread of Maoism in India is the single biggest internal security challenge to the state. Consequently, in spite of stiff opposition from top policy makers, the PM, the FM and the Deputy Chairman of the Planning Commission, the government has implemented the Mahatma Gandhi National Rural Employment Guarantee (MGNREGS) since 2007 (Act passed in 2005), loan waiver for farmers since 2008 and agreed to Right to Education even if in a watered down form. The opponents of these schemes, with faith in free market philosophy, consider these schemes as an interference in the market mechanism and a waste of money. The Sarva Shiksha Scheme and mid-day meal schemes had already been introduced earlier but allocations for them were increased substantially after 2004. Over time, these schemes should help the poor even if they do not eliminate poverty due to the basic thrust of policy being anti-poor and a lack of will of the rulers.

Take, for instance, the implementation of MGNREGS. Reports of corruption in its implementation are growing with even courts taking note. In some cases, members of civil society groups overseeing its implementation and whistle blowers have been eliminated. This is an important scheme even if wholly inadequate to deal with poverty. It gives up to 100 days of work to one member of a poor family. Thus, it amounts to additional income of 25 days of work per family member. This as an additionality is important even if inadequate. It results in an increase in wages during the lean season in rural areas leading to an all-round increase in incomes for the poor. This scheme can help create additional assets for the families of the poor and also lead to increase in rural infrastructure (Kumar, 2006a).

Based on the above analysis, policies with regard to poverty may be divided into the following phases, overlapping the phases of the economy as given in Chapter IV:

Phase I 1950-69. Growth with trickle down — indirect focus on poverty removal.

Phase II 1970-75. Explicit focus on poverty removal — Garibi Hatao and the Fifth Plan.

Phase III 1975 to 1991. Right ward drift, lip service to poverty removal but shift away from the idea of equity.

Phase IV 1991 to 2000. Market oriented approaches and increasing marginalisation of the poor.

Phase V 2000 to 2004. Market orientation intensifies with "growth at any cost".

Phase VI 2004 onward. Market orientation continues but implementation of key pro-poor schemes which can mitigate the difficulties of the poor since the ill-effects of continuing emphasis on "growth at any cost".

4.4.1 Public Sector, Finance Commissions and Checking Inequality

Amongst the many roles the public sector has played in post-independence India, an important one has been to help the poor and prevent poverty from getting more entrenched. While poverty continues in spite of the public sector, it is clear that without it, the situation could have been worse as in the pre-independence era.

The contribution of the public sector in creation of infrastructure, increasing access to education and health, generating employment, subsidising essentials of life, encouraging increased food production and so on is very substantial (Chapter V, Section 5.1). Even post-1991, in spite of the reduction of the role of the public sector, it continues to play a significant role in preventing the lot of the poor from deteriorating further.

Since 2003, there is an apparent contradiction with economic growth rate increasing but it appears that poverty is getting more entrenched. Some feel that it is inequality that has increased while poverty has declined. There are also those who feel that government is now serious about poverty and that is why it has acceded to the long-standing demands of democratic forces for the right to employment (MGNREGS) and the right to information (RTI). However, there are also those who feel that these steps will not make much of a difference unless they are backed up by strong movements that maintain a constant vigil. According to this section, the present government with its right wing agenda has conceded to these demands so as to more vigorously pursue its real agenda, which can only aggravate poverty and the problems of the poor in the long-run even if there is some succour in the short-run. In other words, what is apparent is not really true so that understanding the issue of poverty in the current context has become a more complex task.

The implementation of MGNREGS and RTI are important but the institutional framework to make them effective needs to be put in place. If the ruling elite were committed to their implementation it would have been another matter. Be that as it may, the legal and constitutional issues involved are complex and a necessary pre-requisite to the empowerment of the poor. Why the constitutional provision of Right to Life has not worked to help the poor and how the courts have changed the interpretation of the constitution and democratic rights since 1991 are pointers to how legal provisions do not automatically help the poor. The issues of the marginalised have to go beyond sloganeering by the political parties (even in the case of parties led by the leaders of the downtrodden sections).

The regional dimensions of poverty and growing inequity across states needs analysis and the politics it is generating has to be understood. There is a case for decentralisation to tackle regional disparities but its opponents argue that there are local vested interests, which will thwart it. The issue is — can

the Centre be more democratic than the states and the states more than the local bodies? How can empowerment be possible unless it reaches the bottom most tier? Without these issues being sorted out, large uncertainties will remain associated with the newly initiated pro-poor schemes, like MGNREGS.

To tackle inter-state disparities the constitution provides for Finance Commissions (FC), which devolve resources from the Centre to the States. The last 12 FCs whose reports have been implemented have suggested different formulae to reduce regional disparities but nothing seems to have worked and regional disparities have only risen. The reason is that the macroeconomic factors, impact of the black economy, private capital flows and markets have worked counter to the impact of the FCs (Kumar, 2008b). All one can say is that things would have been worse but for the awards of the FCs.

In brief, poverty is a consequence of societal processes. One of the most important of these is the role the government plays through policies, like fiscal policies (*see* Chapter V, Section 3). Unfortunately, currently the concern of policy is primarily with the well-off and not the poor. For instance, the current obsession with the stock markets is a pointer to the bias in government policies. The success of policies is gauged by the reaction of the stock markets. In 2004, those who actively bought significant amount of shares numbered only 1,40,000 (others being small players) so that one can assume that policies are designed keeping this group (0.01% of the population) in mind.

4.5 Black Economy, Governance and Poverty

The rhetoric of the government has been that it is pursuing policies to help the poor (say, in the budget speech of the FM or in the Plan document) but as argued above it has only helped the poor at the margins but it is also true that without its interventions the lot of the poor would have been far worse. Further, policies pursued since 1991 have not been directly pro-poor except for some policies after 2004. However, there is an oft neglected factor for the lack of effectiveness of policies — the existence of a large and growing black economy that has led to policy failure across the board (Kumar, 1999).

Governance is undermined by the black economy. Policies on paper and as they are implemented are different so that they do not achieve what was intended. Policies fail whether at the macro level, like planning, monetary policies and fiscal policies or at the micro level, like education, health and PDS. Justice is delayed due to the huge pendency of cases in courts (close to 40 million at the latest count) and legal delays are enormous. Police force borders on criminality and the bureaucracy is substantially corrupted in big and small ways. Thus, many have lost faith in the system's capacity to deliver and seek justice outside the legal system or themselves commit illegality to make extra incomes.

The poor are at the receiving end of the corrupt system (Chapter VIII, Section 6.2) and get even more marginalised than if only the white economy is considered. They neither get justice nor are empowered by the system to obtain what legally they should be able to get. For instance, they should be able to get employment under rural employment schemes but often there is fudging of muster rolls and money is swallowed by the contractors or minor government officials. They should be able to get medical attention from government dispensaries but often the doctors are missing and medicines may be spurious. Their children should be able to get education but the school building may only exist on paper, there may be no teacher or indifferent teaching. Thus, children of the poor remain more or less illiterate even if they get to go to school.

Those in some position of authority whether in the public or the private sectors have a chance of making extra incomes but the vast majority of the population is in no position to make extra incomes through committing illegality. They may commit illegality (like encroaching) but have to pay bribes to those in authority.

The failure of policies and of the public sector due to the growing black economy has led to difficulties in eliminating poverty and resulted in growing inequality (Kumar, 1999). The black economy results in increasing waste in society and lowering of the surplus available for investment and also loss of productivity (*see* Chapter VIII). Consider, for example, roads are poorly constructed so that they break down and have to be repeatedly repaired. In the process, the contractors and policy makers make money but society loses since instead of making new roads, effort simply goes in maintaining potholed roads. Innumerable such wastes characterise the functioning of the black economy in India. Another instance is of production of poor quality products due to cutting corners or production of spurious goods so that frequent repairs are needed or greater amount of energy is consumed and so on (Kumar, 1999).

The black economy leading to policy failure and poor governance result in lowering the potential rate of growth of the economy, reducing the employment potential, decline in the investment multiplier and making income distribution more skewed (Kumar, 2005b). These factors along with the poor standards of education, sanitation and health lead to a worsening of the poverty scenario.

4.5.1 Measurement of Poverty and Black Incomes

The measurement of poverty is vitiated by the large size of the black economy in India. The existence of the black economy implies that per capita income is higher since there is additional production not captured in GDP data. This extra production over and above the reported production, ought to

mean higher consumption than captured by official data in National Account Statistics (NAS). This is not to be confused with the fact (*see* Section 2 above) that the NAS consumption total (the reported amount) is in any case higher than that given by the NSS total. Thus, could poverty be lower due to the existence of the black economy? It has been argued in Kumar (1999) that the bulk of the black incomes accrue to less than 3% of the population. Hence, it is this section which earns more and consumes more leaving the lot of the poor unchanged.

However, there are other aspects of the black economy that impact the poor adversely:

(a) Prices are higher than they would have been due to the black premia on critical commodities.
(b) Further, due to higher declared costs prices are also fixed higher.
(c) Due to the increase in the size of the black economy, the rate of inflation also turns out to be higher.
(d) There is adulteration and production of spurious products, which mean that the poor get a lower quality good than they are paying for and this not only lowers their consumption but affects their health adversely leading to higher expenditures.
(e) Due to falsification of government expenditures on the pro-poor schemes, they do not get the benefit they should have got while the statistics would tend to show lower poverty.
(f) The subsidies the government is supposed to give do not reach the poor or the schemes run for them get derailed while expenditures are shown (as stated by a finance minister "expenditures do not mean outcomes"). Thus, on paper a lot of things are supposed to happen while in reality they do not.
(g) Due to the black economy, wages and employment are shown to be higher than they actually are (Kumar, 2006c), so poverty would be higher.
(h) Due to the black economy, expenditure on education and health is overestimated or achievements are shown to be better than they are (GOI, 2012), so that one may get the impression that poverty is less than it really is.

Finally, there are the indirect influences through policy failure and increase in disparities.

In brief, poverty is defined in terms of consumption but the black economy alters the pattern of consumption and falsifies some of the data on consumption so that it has a bearing on measurement of poverty. This should once again make analysts of poverty reconsider their methodology of discussing poverty.

Poverty, corruption, governance and policy failure also link up the political and the social with the economic issues. Corruption weakens democracy and the capacity of the state to deliver. Policy failure enabled a successful drive by international capital and its national supporters in 1991 to engineer a strategic retreat of the state (Chapter III, Section 6) which leaves the poor at the mercy of the market forces or the benevolence of the civil groups and marginalises their issues. The awareness of issues relating to poverty in the general public partly depends on its depiction in media, literature and arts. Perceptions of poverty enter our day to day parlance given our feudal background. For instance, we use phrases like "Do kauri ka admi" and "Apni aukat me reh" when we wish to run someone down; we are pointing to their poverty or running them down by equating them with the poor. In other words, in the consciousness of the citizens and especially of the elite, poverty becomes a derogatory word.

4.6 Poverty and the Marginalised Groups

Amongst the marginalised groups the SC / ST (Dalits) and the Muslims are the most disadvantaged. Further, women amongst all groups, including the marginalised, are the most marginalised.

Politically, during the independence movement the historical wrong to the SC / ST was recognised and it was decided that to correct this, they must be given reservations to quickly overcome their handicap. Tables 6.6 to 6.9 and 10.5 to 10.7 show the deprivation of the Dalit groups in every way — poverty, nature of jobs and asset holding. The marginalisation of these groups by their own leadership due to their adoption of the dominant male-centred exploitative values is discussed in Chapter IV, Section 2.1.5 and Chapter VI, Section 2.1. This makes it even more difficult for these groups to escape their marginalisation. GOI (2006) documents the poor socio-economic conditions of the Muslim community in India.

Table 10.5

Poverty Incidence-Head Count Ratio — All India (in %)

SRGs	*1983*			*1993-94*			*2004-05*		
	Rural	*Urban*	*Total*	*Rural*	*Urban*	*Total*	*Rural*	*Urban*	*Total*
1	2	3	4	5	6	7	8	9	10
ALL	46.5	42.2	45.6	36.9	32.8	35.8	28.0	25.8	27.5
ST	63.9	55.3	63.3	50.2	42.9	49.6	44.7	34.2	43.8
SC	59.0	55.8	58.4	48.3	49.7	48.6	37.1	40.9	37.9
OTHERS	40.8	39.8	40.5	31.2	29.6	30.7	22.7	22.6	22.7

(Contd. . .)

Table 10.5 *(. . .contd)*

SRGs	1983			1993-94			2004-05		
	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban	Total
1	2	3	4	5	6	7	8	9	10
HINDUS	47.0	40.3	45.6	36.5	30.6	35.1	27.9	23.6	26.9
MUSLIMS	51.2	57.2	53.1	45.0	47.7	45.9	33.0	40.6	35.5
ORM	30.2	29.3	29.9	27.1	22.4	25.7	18.2	13.7	16.9

(Source: Thorat, 2010.)

Note:
OTHERS: Other Households.
ORM : Other Religious Minorities.
SRGs: Socio-Religious Groups.

Table 10.6(a)

Distribution of Households by HH type in the Rural Sector

SRGs	SENA	AGLA	OLAH	SEAG	OTHERS	ALL
1983						
ST	6.9	36.8	6.4	43.0	6.9	100.0
SC	10.6	54.2	7.7	20.1	7.4	100.0
OTHERS	13.5	22.6	5.7	46.4	11.7	100.0
HINDUS	11.3	30.8	5.9	41.9	10.0	100.0
MUSLIMS	20.3	27.7	7.7	33.7	10.7	100.0
ORM	12.7	28.9	6.9	36.7	14.8	100.0
Total	12.2	30.4	6.2	40.9	10.3	100.0
1993-94						
ST	5.9	38.8	10.0	38.4	6.9	100.0
SC	10.6	52.2	10.5	19.7	6.9	100.0
OTHERS	14.4	23.3	6.9	44.1	11.2	100.0
HINDUS	11.6	32.0	8.0	39.0	9.4	100.0
MUSLIMS	22.6	26.9	9.2	30.0	11.3	100.0
ORM	12.0	31.1	8.2	35.8	13.0	100.0
Total	12.6	31.5	8.1	38.0	9.8	100.0
2004-05						
ST	6.7	34.9	10.9	38.5	9.1	100.0
SC	14.2	42.5	15.2	19.2	9.0	100.0
OTHERS	17.5	20.5	9.3	40.3	12.5	100.0
HINDUs	14.3	27.5	10.5	36.7	11.0	100.0
MUSLIMS	27.8	21.3	10.8	26.6	13.4	100.0
ORM	13.4	24.7	14.3	33.9	13.7	100.0
Total	15.6	26.7	10.7	35.5	11.4	100.0

(Source: Thorat (2010). Thorat, S.K. 2010. How Socially Inclusive has Growth been?: Growth, Inequality and Poverty during 1983 / 2005 — Implications for Inclusive Policy. Presidential Address at 93rd Annual Conference of The Indian Economic Association Held in Punjab University, Chandigarh.)

(Contd . . .)

Note:
SENA: Self Employed Non-agriculture.
AGLA: Agricultural Labour.
OLAH: Other Labour Households.
SEAG: Self Employed in Agriculture.
OTHERS: Other Households.

Table 10.6(b)

Distribution of Households by HH type in the Urban Sector

Household Type	*ST*	*SC*	*OTHERS*	*HINDUS*	*MUSLIMS*	*ORM*	*Total*
1983							
SEMP	2.5	9.7	87.8	73.6	19.2	7.1	100
RWSE	na	na	na	na	na	na	na
CALA	na	na	na	na	na	na	na
OTHERS	3.3	14.3	82.5	81.9	10.8	7.2	100
ALL	3.1	12.8	84.2	79.2	13.6	7.2	100
1993-94							
SEMP	2.2	9.9	87.9	74.7	19.3	6	100
RWSE	3.4	12.8	83.7	84.8	8.4	6.9	100
CALA	4.8	28.2	67	79.7	15.1	5.2	100
OTHERS	4.6	11.7	83.7	79.1	13.9	7	100
ALL	3.3	13.7	82.9	80.2	13.5	6.4	100
2004-05							
SEMP	1.9	11.6	86.5	75.3	18.8	5.9	100
RWSE	3.1	15.6	81.3	85.3	8.8	5.9	100
CALA	5.7	28.8	65.5	78.6	16.1	5.3	100
OTHERS	4.6	11.1	84.3	79.8	11.3	8.9	100
ALL	3.1	15.2	81.7	80.2	13.7	6.1	100

(Source: As in previous Table 10.6a.)

Note:

SEMP: Self Employed
RWSE: Regular Wage and Salary Earner
CALA: Casual Labour
OTHERS: Other Households

Table 10.7

Ranking of 447 Districts on Index of Backwardness* (3 Parameters — SC & ST, Agri. Wages, Output per Agri. Worker)

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
1	Gujarat	Dangs	94.7	20.00	3,143
2	Rajasthan	Banswara	78.5	20.00	4,279
3	Madhya Pradesh	Jhabua	88.3	34.00	3,287
4	Jharkhand	Simdega	76.1	22.00	3,162
5	Jharkhand	Gumla	76.1	22.00	3,162
6	Chattisgarh	Bastar	73.3	28.00	4,034
7	Chattisgarh	Dantewada	73.3	28.00	4,034
8	Chattisgarh	Kanker	73.3	28.00	4,034
9	Madhya Pradesh	Mandla	66.0	23.00	2,871
10	Orissa	Koraput	69.3	24.00	6,390
11	Orissa	Malkangir	69.3	24.00	6,390
12	Orissa	Nabarangpur	69.3	24.00	6,390
13	Orissa	Rayagada	69.3	24.00	6,390
14	Jharkhand	Lohardagga	60.2	22.00	2,694
15	Orissa	Mayurbhanj	64.9	25.00	5,207
16	Gujarat	Dohad	50.9	15.00	3,146
17	Gujarat	Panch Mahals	50.9	15.00	3,146
18	Orissa	Sundergarh	59.5	20.00	7,481
19	Jharkhand	Saraikela	59.7	28.50	1,362
20	Jharkhand	Singhbhum West	59.7	28.50	1,362
21	Madhya Pradesh	Barwani	56.0	23.00	4,445
22	Madhya Pradesh	West Nimar	56.0	23.00	4,445
23	Rajasthan	Dungarpur	70.4	42.00	2,969
24	Assam	North Cachar Hills	68.1	35.00	6,948
25	Madhya Pradesh	Dhar	60.4	30.10	5,718
26	Maharashtra	Gadchiroli	50.9	25.00	2,425
27	Orissa	Phulbani	56.0	25.00	7,196
28	Orissa	Boudh	56.0	25.00	7,196
29	Madhya Pradesh	Seoni	47.8	20.00	4,454
30	Orissa	Keonjhar	56.0	27.00	6,226
31	Madhya Pradesh	Umaria	54.0	30.00	2,682
32	Madhya Pradesh	Shahdol	54.0	30.00	2,682
33	Chattisgarh	Jaspur	59.9	35.00	4,267
34	Chattisgarh	Korba	59.9	35.00	4,267
35	Chattisgarh	Raigarh	59.9	35.00	4,267

(Contd. . .)

* The districts with low wages, low productivity and high SC / ST population would be ranked as backward on this index.

Table 7.10 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹ / day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
36	Gujarat	Valsad	57.4	27.50	8,495
37	Gujarat	Bharuch	49.8	20.00	8,720
38	Gujarat	Narmada	49.8	20.00	8,720
39	Chattisgarh	Koria	59.2	37.00	3,992
40	Chattisgarh	Sarguja	59.2	37.00	3,992
41	Madhya Pradesh	Chindwara	46.7	19.00	7,674
42	Assam	Karbi Anglong	55.3	35.00	5,167
43	West Bengal	Jalpaiguri	58.0	38.00	6,702
44	Rajasthan	Udaipur	45.1	30.00	2,828
45	Orissa	Nuapada	46.9	27.00	7,355
46	Orissa	Kalahandi	46.9	27.00	7,355
47	Madhya Pradesh	Sidhi	41.8	30.00	2,906
48	Maharashtra	Dhule	46.2	33.00	4,714
49	Maharashtra	Nandubar	46.2	33.00	4,714
50	Jharkhand	Dumka	48.6	40.00	1,700
51	Jharkhand	Jamtara	48.6	40.00	1,700
52	Madhya Pradesh	Betul	48.3	35.00	5,274
53	Madhya Pradesh	Harda	48.3	35.00	5,274
54	Gujarat	Navasari	39.8	16.00	12,559
55	Chattisgarh	Bilaspur	41.1	29.00	4,108
56	Chattisgarh	Jangir-champa	41.1	29.00	4,108
57	Chattisgarh	Kawardha	41.1	29.00	4,108
58	Maharashtra	Bhandara	31.6	20.00	2,965
59	Assam	Kokrajhar	44.9	35.00	3,206
60	Assam	Dhemaji	50.3	40.00	4,003
61	Andhra Pradesh	Adilabad	35.5	26.00	3,098
62	Uttar Pradesh	Sonbhadra	42.5	35.00	2,686
63	Maharashtra	Chandrapur	33.6	25.00	3,614
64	Orissa	Sambalpur	44.9	30.00	9,360
65	Orissa	Bargarh	44.9	30.00	9,360
66	Orissa	Deoghar	44.9	30.00	9,360
67	Orissa	Jharsuguda	44.9	30.00	9,360
68	Jharkhand	Sahebganj	44.4	39.50	1,758
69	Jharkhand	Pakur	44.4	40.00	1,758
70	Jharkhand	Chatra	43.2	39.00	1,539
71	Jharkhand	Garhwa	43.2	39.00	1,539
72	Jharkhand	Palamau	43.2	39.00	1,539
73	Jharkhand	Latehar	43.2	39.00	1,539
74	West Bengal	Purulia	38.6	32.00	3,215
75	Maharashtra	Gondya	31.6	25.00	2,965
76	Jharkhand	Godda	33.6	30.00	1,382
77	Madhya Pradesh	East Nimar	38.2	30.00	5,305

(Contd. . .)

Table 7.10 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
78	Madhya Pradesh	Satna	31.6	25.00	3,637
79	West Bengal	Cooch Bihar	52.4	41.00	9,443
80	Madhya Pradesh	Balaghat	30.2	25.00	3,294
81	Orissa	Sonepur	35.9	25.00	8,284
82	Orissa	Bolangir	35.9	25.00	8,284
83	Maharashtra	Hingoli	29.9	25.00	3,866
84	Maharashtra	Nanded	29.9	25.00	3,866
85	Chattisgarh	Dhamatri	32.7	27.00	5,616
86	Chattisgarh	Mahasamund	32.7	27.00	5,616
87	Andhra Pradesh	Khammam	41.5	35.50	6,678
88	West Bengal	Bankura	41.7	36.00	7,005
89	Madhya Pradesh	Panna	35.3	33.00	4,231
90	Maharashtra	Aurangabad	27.1	25.00	3,942
91	Assam	North Lakhimpur	31.6	28.50	5,309
92	Chattisgarh	Rajnandgaon	35.5	35.00	3,747
93	Uttar Pradesh	Sitapur	32.2	30.00	5,582
94	Andhra Pradesh	Mahbubnagar	25.0	25.00	3,475
95	Uttar Pradesh	Unnao	30.6	30.00	4,414
96	Uttar Pradesh	Raebareli	30.0	30.00	4,334
97	West Bengal	West / North Dinajpur	38.8	37.00	6,437
98	West Bengal	East / South Dinajpur	38.8	37.00	6,437
99	Uttar Pradesh	Hardoi	31.5	30.00	5,787
100	Jharkhand	Bokaro	23.9	28.00	,914
101	Rajasthan	Sirohi	42.6	40.00	7,798
102	Chattisgarh	Durg	25.2	25.00	4,633
103	Maharashtra	Ahmednagar	19.6	19.00	4,774
104	Bihar	Gaya	29.7	34.00	1,983
105	Assam	Bongaigaon	28.2	31.00	3,109
106	Orissa	Angul	28.6	29.00	5,111
107	Orissa	Dhenkanal	28.6	29.00	5,111
108	West Bengal	Birbhum	37.6	35.00	8,297
109	Maharashtra	Yawatmal	32.4	34.00	4,876
110	Maharashtra	Thane	23.3	26.00	3,541
111	Jharkhand	Singhbhum East	33.7	40.00	2,006
112	Bihar	Vaishali	19.9	25.00	1,878
113	Maharashtra	Amrawati	31.9	34.00	5,281
114	Rajasthan	Jhalawar	29.1	30.00	6,370
115	Jharkhand	Hazaribagh	27.7	35.00	1,583
116	Jharkhand	Koderma	27.7	35.00	1,583
117	Karnataka	Chitradurga	34.4	33.00	8,904

(Contd. . .)

Table 7.10 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
118	Karnataka	Davanagere	34.4	33.00	8,904
119	Andhra Pradesh	Warangal	30.9	35.00	4,618
120	Bihar	Samastipur	18.0	24.00	2,414
121	Bihar	Sheohar	18.0	24.00	2,414
122	Andhra Pradesh	Rangareddy	21.5	27.00	3,124
123	Madhya Pradesh	Katni	30.7	36.00	4,175
124	Maharashtra	Latur	21.3	25.00	4,645
125	Tamil Nadu	South Arcot / Cuddalore	28.3	30.00	6,767
126	Tamil Nadu	Villupuram	28.3	30.00	6,767
127	Karnataka	Bidar	29.0	33.00	5,221
128	Rajasthan	Dausa	44.5	50.00	5,658
129	Maharashtra	Wardha	29.7	34.00	5,490
130	Jharkhand	Giridih	25.5	35.00	1,217
131	Karnataka	Gulbarga	27.7	33.00	4,599
132	Assam	Goalpara	22.7	27.00	5,107
133	Madhya Pradesh	Dewas	33.2	33.00	9,432
134	Orissa	Balasore	26.9	30.00	6,727
135	Orissa	Bhadrak	26.9	30.00	6,727
136	Orissa	Jajpur	26.9	30.00	6,727
137	Orissa	Gajapati	26.0	29.00	7,083
138	Orissa	Ganjam	26.0	29.00	7,083
139	Madhya Pradesh	Chhatarpur	27.5	33.00	5,316
140	Rajasthan	Tonk	32.1	35.00	7,885
141	Bihar	Jamui	24.5	34.00	2,255
142	Bihar	Nawadah	24.5	34.00	2,255
143	Gujarat	Sabarkantha	27.1	31.00	7,042
144	Uttar Pradesh	Fatehpur	24.7	30.00	5,859
145	Andhra Pradesh	Chittur	21.6	27.00	5,575
146	Uttar Pradesh	Lalitpur	25.1	30.00	6,300
147	Orissa	Jagatsinghpur	23.7	26.00	8,185
148	Orissa	Kendrapara	23.7	26.00	8,185
149	Orissa	Cuttack	23.7	26.00	8,185
150	Madhya Pradesh	Guna	30.1	34.00	7,575
151	Jharkhand	Devghar	25.2	36.00	1,929
152	Maharashtra	Buldhana	16.6	23.00	4,597
153	Uttar Pradesh	Jalaun	27.3	30.00	8,305
154	Uttar Pradesh	Banda	23.2	30.00	4,880
155	Uttar Pradesh	Chitrakoot	23.2	30.00	4,880
156	Madhya Pradesh	Rewa	27.2	36.00	3,810
157	Madhya Pradesh	Datia	26.4	29.60	8,033
158	Bihar	Araria	15.0	25.00	2,157

(Contd. . .)

Table 7.10 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
159	Madhya Pradesh	Ratlam	37.0	42.50	7,467
160	Karnataka	Bellary	28.1	33.00	7,198
161	Rajasthan	Swai Madhopur	44.5	50.00	8,170
162	Uttar Pradesh	Gorakhpur	22.0	30.00	4,417
163	Uttar Pradesh	Kushinagar	22.0	30.00	4,417
164	Uttar Pradesh	Mohoba	24.9	30.00	6,957
165	Uttar Pradesh	Hamirpur	24.9	30.00	6,957
166	Uttar Pradesh	Barabanki	27.0	35.00	5,021
167	Tamil Nadu	Tiruvannamalai	24.5	34.00	3,706
168	Andhra Pradesh	Vizianagaram	19.4	27.00	4,838
169	Uttar Pradesh	Kheri	28.1	30.00	9,923
170	Andhra Pradesh	Nalgonda	27.4	36.00	4,782
171	Andhra Pradesh	Nellore	30.3	37.00	6,683
172	Rajasthan	Bhilwara	26.1	35.00	4,680
173	Rajasthan	Rajasmand	26.1	35.00	4,680
174	Assam	Morigaon	29.2	39.00	4,317
175	Tamil Nadu	Nagapattinam	24.4	33.00	4,945
176	Tamil Nadu	Thiruvarur	24.4	33.00	4,945
177	Tamil Nadu	Thanjavur	24.4	33.00	4,945
178	Maharashtra	Osmanabad	18.1	25.00	5,738
179	Uttar Pradesh	Jhansi	28.8	35.00	7,172
180	Uttar Pradesh	Mirzapur	25.9	35.00	4,858
181	Madhya Pradesh	Sagar	29.6	37.00	6,508
182	Bihar	Darbhanga	14.6	27.00	1,627
183	Madhya Pradesh	Damoh	32.5	42.00	5,336
184	Bihar	Purnea	16.9	28.00	2,844
185	West Bengal	Pargnas 24 South	35.6	47.00	4,262
186	Uttar Pradesh	Kanpur Rural	25.2	30.00	8,470
187	Uttar Pradesh	Jaunpur	21.8	30.00	5,692
188	Karnataka	Raichur	25.0	33.00	6,360
189	Bihar	Muzaffarpur	15.7	28.00	2,359
190	Bihar	Madhubani	12.8	25.50	1,860
191	Bihar	Supaul	12.8	25.50	1,860
192	Tamil Nadu	Dindigul Anna/ Dindigul	19.9	30.00	4,639
193	Maharashtra	Parbhani	16.3	25.00	5,611
194	Uttar Pradesh	Azamgarh	25.6	35.00	5,940
195	Madhya Pradesh	Raisen	31.0	35.00	10,834
196	Maharashtra	Jalna	15.0	25.00	4,981
197	Tamil Nadu	Tirunelveli	18.3	29.00	4,940
198	Andhra Pradesh	Anantapur	17.7	27.00	6,000

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹ / day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
199	West Bengal	Midnapur West	24.6	38.00	3,483
200	Bihar	Katihar	14.4	28.00	2,554
201	Rajasthan	Baran	33.9	40.00	9,885
202	Rajasthan	Kota	33.9	40.00	9,885
203	Bihar	Lakhisarai	18.3	33.00	2,096
204	Bihar	Monghyr	18.3	33.00	2,096
205	Bihar	Sheikhpur	18.3	33.00	2,096
206	Maharashtra	Beed	14.5	25.00	5,095
207	Uttar Pradesh	Mau	22.1	32.00	6,188
208	Andhra Pradesh	Medak	22.1	36.00	3,385
209	Tamil Nadu	Karur	19.3	30.00	5,627
210	Tamil Nadu	Tiruchirapalli	19.3	30.00	5,627
211	Rajasthan	Bundi	39.1	45.00	11,176
212	Rajasthan	Ajmer	20.8	35.00	3,443
213	Uttar Pradesh	Sultanpur	22.4	35.00	4,847
214	Madhya Pradesh	Hoshangabad	33.7	38.00	12,192
215	Madhya Pradesh	Sehore	30.5	35.00	11,787
216	West Bengal	Nadia	31.4	39.00	9,539
217	Tamil Nadu	Pudukottai	16.9	30.00	4,185
218	Uttar Pradesh	Kaushambi	21.5	35.00	4,303
219	Uttar Pradesh	Pratapgarh	21.5	35.00	4,303
220	Uttar Pradesh	Ambedkar Nagar	23.2	35.00	5,782
221	Uttar Pradesh	Faizabad	23.2	35.00	5,782
222	Andhra Pradesh	East Godavari	22.1	32.00	7,295
223	Bihar	Jahanabad	18.4	34.00	2,707
224	Tamil Nadu	Ramnathpuram	18.2	31.00	4,868
225	Tamil Nadu	Sivagangai	18.2	31.00	4,868
226	Rajasthan	Jodhpur	18.1	30.00	5,628
227	Rajasthan	Jhunjhunu	17.3	30.00	4,971
228	Bihar	Siwan	11.7	25.00	4,387
229	Orissa	Puri	19.0	30.00	6,967
230	Orissa	Khurda	19.0	30.00	6,967
231	Orissa	Nayagarh	19.0	30.00	6,967
232	Uttar Pradesh	Basti	21.2	35.00	5,145
233	Uttar Pradesh	Sant Kabir Nagar	21.2	35.00	5,145
234	Bihar	Khagaria	14.5	31.00	2,545
235	Bihar	Madhepura	17.0	34.00	2,449
236	Karnataka	Tumkur	25.0	38.00	6,394
237	Bihar	Saharsa	15.8	34.00	1,707
238	Tamil Nadu	Kamarajnagar / Virudunagar	18.7	33.00	4,954

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹ / day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
239	West Bengal	Burdwan	33.6	43.00	9,950
240	West Bengal	Midnapur East	24.6	38.00	6,246
241	Madhya Pradesh	Dindori	29.5	38.00	10,424
242	Madhya Pradesh	Narsimpur	29.5	38.00	10,424
243	Bihar	Sitamarhi	12.1	30.00	1,866
244	Madhya Pradesh	Tikamgarh	26.9	40.00	6,809
245	Andhra Pradesh	Srikakulam	15.1	30.00	4,624
246	Uttar Pradesh	Chandauli	18.1	32.00	5,716
247	Uttar Pradesh	Sant Ravidas Nagar	18.1	32.00	5,716
248	Rajasthan	Nagour	19.9	35.00	5,238
249	Maharashtra	Sangli	13.1	27.00	5,692
250	Bihar	Kishanganj	10.1	28.00	2,509
251	Tamil Nadu	Theni	15.0	30.00	5,356
252	Maharashtra	Satara	10.2	23.00	6,725
253	Uttar Pradesh	Ghazipur	20.6	35.00	6,443
254	Tamil Nadu	Salem	20.2	35.00	6,294
255	Tamil Nadu	Namakkal	20.2	35.00	6,294
256	Uttar Pradesh	Maharajganj	19.6	35.00	5,854
257	Madhya Pradesh	Vidisha	24.7	36.00	9,465
258	Assam	Darrang	22.3	33.00	9,852
259	Rajasthan	Chittorgarh	34.9	50.00	7,609
260	Bihar	Champaran West	15.7	33.00	4,433
261	Karnataka	Bagalkote	18.8	33.00	7,069
262	Karnataka	Bijapur	18.8	33.00	7,069
263	Bihar	Aurangabad	23.3	39.50	5,933
264	Karnataka	Chamarajanagar	22.1	38.00	6,080
265	Karnataka	Mysore	22.1	38.00	6,080
266	Assam	Nalbari	26.5	43.00	6,215
267	Uttar Pradesh	Sidharth Nagar	16.7	35.00	4,278
268	Maharashtra	Jalgaon	19.1	33.00	7,872
269	Tamil Nadu	Kanchipuram	27.2	44.00	6,446
270	Tamil Nadu	Chengalpattu / Tiruvallur	27.2	44.00	6,446
271	Bihar	Banka	13.9	35.00	2,087
272	Bihar	Bhagalpur	13.9	35.00	2,087
273	Bihar	Champaran East	13.1	33.00	3,125
274	Uttar Pradesh	Bahraich	16.8	35.00	4,805
275	Uttar Pradesh	Balrampur	16.8	35.00	4,805
276	Uttar Pradesh	Shrawasti	16.8	35.00	4,805
277	Bihar	Rohtas	20.4	37.50	5,973

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹ / day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
278	Assam	Sonitpur	16.4	36.00	3,834
279	Andhra Pradesh	Kurnool	19.3	35.00	7,131
280	Madhya Pradesh	Ujjain	26.7	37.00	11,916
281	Madhya Pradesh	Shivpuri	30.7	48.00	6,995
282	Rajasthan	Dholpur	24.8	42.00	6,623
283	West Bengal	Maldah	24.6	38.00	9,498
284	Bihar	Kaimur (bhabua)	20.4	38.00	5,973
285	Uttar Pradesh	Gonda	16.0	35.00	4,573
286	Madhya Pradesh	Shajapur	24.7	35.00	11,963
287	Andhra Pradesh	Cuddapah	17.0	35.00	5,615
288	Madhya Pradesh	Mandsaur	20.7	37.00	7,284
289	Madhya Pradesh	Neemuch	20.7	37.00	7,284
290	Tamil Nadu	North Arcot / Vellore	22.3	34.00	11,335
291	West Bengal	Pargnas 24 North	23.8	42.00	6,698
292	Karnataka	Dharwad	14.7	33.00	5,865
293	Karnataka	Gadag	14.7	33.00	5,865
294	Karnataka	Haveri	14.7	33.00	5,865
295	West Bengal	Hoogly	28.2	43.00	9,713
296	Andhra Pradesh	Nizamabad	21.0	41.00	5,502
297	Andhra Pradesh	Karimnagar	21.3	40.00	6,547
298	Uttar Pradesh	Ballia	14.7	35.00	4,854
299	Rajasthan	Bikaner	18.9	37.00	7,127
300	Bihar	Begusarai	14.5	38.00	2,681
301	Karnataka	Hassan	18.5	35.00	8,403
302	Rajasthan	Barmer	21.6	45.00	3,571
303	Bihar	Gopalganj	13.3	33.00	5,864
304	Tamil Nadu	Chidambaranar / Tuticorin	17.4	33.00	9,539
305	Andhra Pradesh	Prakasam	23.6	43.00	7,228
306	Madhya Pradesh	Gwalior	23.3	38.00	10,840
307	Uttar Pradesh	Deoria	15.6	35.00	6,694
308	West Bengal	Darjeeling	29.9	50.00	7,569
309	Madhya Pradesh	Rajgarh	21.3	42.00	6,767
310	Assam	Golaghat	15.9	37.00	6,158
311	Karnataka	Bangalore Rural	15.8	38.00	5,413
312	Bihar	Buxar	14.7	38.00	4,528
313	Bihar	Bhojpur	14.7	38.00	4,528
314	Assam	Jorhat	19.7	40.00	7,310
315	Tamil Nadu	Pmthevar / Perambalur	16.1	40.00	4,377

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹ / day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
316	Assam	Dhubri	7.2	31.00	3,766
317	Gujarat	Banaskantha	17.5	34.00	10,365
318	Gujarat	Patan	17.5	34.00	10,365
319	Rajasthan	Jalore	26.2	50.00	5,607
320	Karnataka	Chikkamagalur	21.9	35.00	13,622
321	Karnataka	Koppal	21.9	35.00	13,622
322	Uttar Pradesh	Auraiya	25.0	46.00	8,149
323	Uttar Pradesh	Etawah	25.0	46.00	8,149
324	Madhya Pradesh	Morena	25.5	45.00	9,346
325	Madhya Pradesh	Sheopur	25.5	45.00	9,346
326	Assam	Silcer	16.1	36.00	8,342
327	Andhra Pradesh	West Godavari	20.3	41.00	8,149
328	Karnataka	Belgaum	13.7	33.00	8,950
329	Bihar	Nalanda	19.4	47.00	3,212
330	Rajasthan	Alwar	25.9	47.00	8,699
331	Rajasthan	Bharatpur	23.9	42.00	11,034
332	Rajasthan	Karauli	23.9	42.00	11,034
333	Assam	Kamrup	18.2	43.00	5,655
334	Karnataka	Mandya	14.5	38.00	6,685
335	Rajasthan	Churu	20.6	47.00	5,129
336	Maharashtra	Sindhudurg	5.6	30.00	5,623
337	Uttar Pradesh	Aligarh	23.0	46.00	8,341
338	Uttar Pradesh	Hathras	23.0	46.00	8,341
339	West Bengal	Murshidabad	14.7	41.00	5,162
340	Rajasthan	Sikar	16.7	45.00	4,270
341	Rajasthan	Pali	23.5	51.00	6,041
342	Bihar	Saran	11.8	42.00	3,116
343	Assam	Dibrugarh	12.0	33.00	10,813
344	Assam	Nagaon	13.3	40.00	6,743
345	Uttar Pradesh	Firozabad	19.3	46.00	8,363
346	Uttar Pradesh	Badaun	17.3	46.00	6,817
347	Assam	Tinsukia	8.0	40.00	3,754
348	Maharashtra	Kolhapur	13.2	40.00	8,202
349	Uttar Pradesh	Mainpuri	19.3	46.00	8,886
350	Andhra Pradesh	Krishna	19.1	47.00	8,657
351	Uttar Pradesh	Bullandshahr	21.0	46.00	11,022
352	Tamil Nadu	Periyar / Erode	18.0	47.00	7,943
353	Uttar Pradesh	Bareilly	12.7	40.00	8,832
354	Maharashtra	Raigad	15.6	50.00	3,681
355	Uttar Pradesh	Mathura	20.2	46.00	10,683
356	Assam	Barpeta	14.5	45.00	6,857
357	Uttar Pradesh	Etah	17.3	46.00	8,549

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
358	Tamil Nadu	Dharmapuri	16.3	48.00	6,388
359	Uttar Pradesh	Shahjahanpur	18.0	46.00	10,273
360	Uttar Pradesh	Farrukhabad	17.6	46.00	10,057
361	Uttar Pradesh	Kannauj	17.6	46.00	10,057
362	Punjab	Hoshiarpur	33.3	54.00	17,689
363	Punjab	Nawanshahr	33.3	54.00	17,689
364	Karnataka	Shimoga	21.6	53.00	8,693
365	Karnataka	Udupi	21.6	53.00	8,693
366	Uttar Pradesh	Shaharanpur	22.5	46.00	15,101
367	Gujarat	Junagarh	9.4	38.00	10,200
368	Maharashtra	Akola	18.9	55.00	5,489
369	Maharashtra	Washim	18.9	55.00	5,489
370	Assam	Karimganj	14.3	50.00	5,490
371	Karnataka	Kolar	32.6	72.00	4,426
372	Gujarat	Mehsana	9.4	37.00	11,465
373	Madhya Pradesh	Bhind	21.6	55.00	8,132
374	Rajasthan	Jaisalmer	19.4	60.00	3,081
375	Kerala	Palakkad	17.4	52.00	7,984
376	Gujarat	Kutch	7.1	46.00	4,006
377	Uttar Pradesh	Bijnor	20.8	46.00	16,615
378	Punjab	Jalandhar	39.1	53.00	27,035
379	Uttar Pradesh	Gautam Budha Nagar	17.9	46.00	14,477
380	Uttar Pradesh	Ghaziabad	17.9	46.00	14,477
381	Assam	Hailakandi	12.2	50.00	6,776
382	Uttar Pradesh	Jyoti Phule Nagar	13.0	46.00	10,713
383	Uttar Pradesh	Rampur	13.0	46.00	10,713
384	Rajasthan	Ganganagar	29.9	50.00	22,322
385	Rajasthan	Hanumangarh	29.9	50.00	22,322
386	Uttar Pradesh	Pilibhit	16.1	46.00	13,724
387	Gujarat	Jamnagar	8.4	44.00	8,805
388	Gujarat	Porbandhar	8.4	44.00	8,805
389	Uttar Pradesh	Moradabad	16.1	50.00	11,078
390	Gujarat	Bhavnagar	6.1	43.00	9,202
391	Maharashtra	Solapur	16.9	62.00	4,949
392	Gujarat	Surendranagar	12.1	45.00	14,248
393	Karnataka	Uttara Kannada	8.3	53.00	6,392
394	Andhra Pradesh	Guntur	18.4	61.00	8,994
395	Punjab	Ropar	24.6	55.00	18,838
396	Punjab	Gurdaspur	24.7	55.00	19,050
397	Uttar Pradesh	Bhagpat	16.6	50.00	16,293

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
398	Maharashtra	Ratnagiri	2.8	50.00	4,707
399	Assam	Sibsagar	7.4	40.00	16,719
400	Kerala	Idukki	19.3	50.00	19,455
401	Gujarat	Amreli	9.3	50.00	11,151
402	Karnataka	Dakshina Kannada	10.4	53.00	10,066
403	Uttar Pradesh	Muzaffarnagar	14.0	50.00	16,037
404	Gujarat	Anand	7.1	20.00	33,823
405	Gujarat	Kheda	7.1	20.00	33,823
406	Haryana	Ambala	23.0	60.00	19,275
407	Haryana	Panchkula	23.0	60.00	19,275
408	Haryana	Yamunanagar	25.0	57.50	23,356
409	Haryana	Panipat	17.9	60.00	18,556
410	Kerala	Kasaragod	10.3	53.00	18,766
411	Haryana	Mahendragarh	15.5	64.00	15,095
412	Haryana	Sonepat	17.8	60.00	21,526
413	Punjab	Moga	24.7	56.00	30,986
414	Punjab	Kapurthala	29.5	63.00	31,246
415	Haryana	Sirsa	26.7	60.00	31,951
416	Kerala	Kollam	12.9	70.00	12,883
417	Haryana	Bhiwani	19.0	75.00	15,866
418	Haryana	Kaithal	21.4	66.00	24,803
419	Haryana	Gurgaon	13.6	77.00	10,875
420	Punjab	Fatehgarh Sahib	23.6	62.00	32,753
421	Haryana	Karnal	20.0	65.00	27,612
422	Punjab	Bhatinda	29.3	69.00	32,576
423	Punjab	Sangrur	26.8	65.00	35,284
424	Haryana	Rewari	19.3	81.00	17,008
425	Karnataka	Kodagu	20.4	53.00	39,861
426	Kerala	Kottayam	8.4	75.00	13,353
427	Punjab	Mansa	29.3	73.00	32,576
428	Punjab	Faridkot	34.1	77.00	34,470
429	Haryana	Kurukshetra	19.3	67.00	31,342
430	Haryana	Jhajjar	18.4	92.00	12,078
431	Haryana	Rohtak	18.4	92.00	12,078
432	Kerala	Alappuzha	9.6	87.00	11,253
433	Punjab	Patiala	23.6	75.00	32,753
434	Haryana	Hissar	23.2	86.00	24,983
435	Haryana	Fatehabad	19.6	90.00	20,203
436	Haryana	Jind	19.6	90.00	20,203
437	Punjab	Firozpur	21.8	72.00	37,381
438	Punjab	Mukatsar	21.8	72.00	37,381

(Contd. . .)

Table 10.7 *(. . .contd)*

Actual Rank	*State*	*District*	*Total SC/ST Pop. in % (1991 Census)*	*Agri. Wages (₹/ day) 1996-97*	*Output /Agri Worker in ₹. (1990-93)*
439	Kerala	Kannur	4.9	74.00	23,135
440	Tamil Nadu	Kanniyakumari	5.1	92.00	9,690
441	Kerala	Eranakulam	8.8	91.00	15,129
442	Kerala	Pathanamthitta	13.9	112.00	10,717
443	Kerala	Wayanad	21.2	110.00	19,289
444	Kerala	Trissur	12.3	113.00	12,368
445	Kerala	Malappuram	8.6	117.00	11,485
446	Tamil Nadu	The Nilgiris	33.7	60.00	78,424
447	Kerala	Kozhikode	7.2	103.00	27,564

(Source: Report of the Task Force on "Identification of Districts for Wage and Self Employment Programmes", Planning Commission, 2003.)

Women suffer double exploitation; within the house and outside if they work. They are exploited even by the exploited — in the Dalit homes or by women in most homes. Dominant upper caste male values prevail almost everywhere, including the Dalits and women themselves, especially the successful ones. For women to be successful they have to adopt the male values and do it better than the men to get to the top. Thus, often successful women are even less understanding of other women, even though they with their experience could have helped in working out more democratic alternatives but they have failed to do so.

The South Asian subcontinent with its entrenched feudal attitudes has had powerful women leaders — Mrs. Gandhi in India, Mrs. Bhutto in Pakistan, Mrs. Bandaranaike and Mrs. Kumaratunga in Sri Lanka and Mrs. Hasina and Mrs. Zia in Bangladesh — but their long rule hardly dented the position of women in their respective countries. For these women, like for men in similar positions, power was important. They did not push for democratisation, which strengthens the marginalised. Instead, they indulged in corruption, concentration of power and curbing challenge to their authority in undemocratic ways. If they were men they would have done the same and they did it better given their family position in the country's politics.

Women's work in the home is not counted so that they are in a weak position financially. Even when they work outside, they typically get a lower wage or income. They are supposed to be given soft work. Their asset ownership is low and since that is a basis for generation of incomes, their status remains low. Due to their lower status in the family often their education and health receives a lcwer priority. Of course, there are regional variations with some areas granting women a higher status than elsewhere.

Women and SC / ST groups have increasingly fought for equal rights and this leads to democratisation. However, these sections have had a limited consciousness confined to the interest of their narrow groups and often only of the leadership. Further, in rural India, the OBCs are accused of being the biggest exploiters of Dalits even while claiming to be exploited by the forward castes. Apparently, their own marginalisation has not led to their sensitisation to treat the other marginalised better. Thus, the fight for equality with the elite groups seems to be limited to joining the elites but not to creating generalised movements for basic democratisation in society, which is a crying need for the emancipation of the marginalised groups as a whole. For instance, these groups have not even asked for free, compulsory and high quality education for all children, which has the highest potential to move a majority of them out of their entrenched poverty. The Dalit groups, due to reservation of seats in legislatures, have had a quarter of the seats and along with the other backward castes have had a majority in Parliament. Yet, this has not been used to push for basic reforms till date.

Scheduled Tribes in India have been characterised as backward due to their low socio economic status. Of course, there are large regional variations since the tribals of the North East have developed rapidly for a variety of reasons, which has not been the case with the tribals from the heartland of the country. The government has poured in large resources into the tribal areas, especially where separatist movements came up. In a classic colonial pattern the leadership of these areas was sought to be bought over through corruption and this has upset the traditional fabric of these societies. The corrupt officials and contractors have lured them to overexploit their forests and natural resources for narrow gains. With money pouring in and consumerism growing rapidly, the tribal elite have moved away from the traditional modes of life. Due to the demonstration effect and corruption, a conflict with nature has developed whereas till recently there was harmony.

Forests have become a bone of contention. The tribals are being increasingly pulled by the lure of the alien modernisation and giving up their traditional holistic lifestyle and coming into conflict with nature. They are not able to take care of the forests as they used to. They are adopting new technologies and new ways of living which they are not familiar with, the social consequences of which they do not understand. All this is resulting in a crisis in their lives, not unlike what has happened to other indigenous people all over the world — Red Indians in the USA or the Aborigines in Australia. The corruption spread by the businessmen, politicians and the executive has spread to buying of votes in elections and this results in a leadership that is anti-democracy. There are instances of a whole ruling party in a state defecting when the ruling party in Delhi changes. The tribal life which was far more democratic than the current dispensation has been replaced by an un-

democratic dispensation along the colonial mould to serve the narrow interests of the national elite. This is leading to entrenched poverty in the tribal dominated areas.

The problems of the tribals in the mainland have been acute in a different way. They were largely ignored by the state for long and left at the mercy of the forest contractors and corrupt executive. They were not afforded the protection they needed from the more advanced social formations that they were being subjected to so that they have not had the leisure to develop at their own pace in a holistic manner. Now that they are discovered to be sitting on land with large natural wealth, they are sought to be displaced rapidly by miners and big businessmen in league with the politicians. Various laws put into place to protect them and the forests are sought to be violated as the recent N. C. Saxena Committee Report points out in the case of Niyamgiri.

The elite consider it their right to exploit these resources irrespective of what happens to the traditional dwellers in those areas. Even the pretence of democratic consultation (through buying out the local leadership) of the tribals is not being maintained due to the arrogance of the business groups drawing support from the ruling elite. The tribals have neither been drawn into the sphere of modernity, which is seeking to lure them but which they do not understand nor are they able to retain their traditional lifestyle, which is under attack from modernisers. For instance, when big factories have come up in their lands, the ultimate symbol of modernity, they get displaced from a whole lifestyle and in return get a few menial jobs and little else. They are drawn into an alien situation and cannot cope with it so face a social crisis when their communities are broken up by the alien development. The result is a rise in massive discontent so that modernity (and its agents the corrupt businessmen and the state) are seen as the cause of their problems. This disaffection has led to the spread of the Maoist movement in the tribal areas. To the national leadership besotted by modernity and short termist attitudes, tribals are backward people sitting on large resources and a source of trouble who need to be somehow moved out. Attempts at understanding them have been few and far in between because the focus is on joining the international elite.

Modernity in India has remained formal with consumption as its main goal but it is not based on the transformation of the social institutions and consciousness. Attitudes have largely remained feudal in spite of independence and democracy so that concern for those at the margins has remained limited. Growing marketisation since 1991 has led to the further marginalisation of the marginals and weakened democratic consciousness. These trends have led to reduced concern for equity in society and for emancipation of the marginalised groups.

4.7 Social Attitudes of Elites Regarding Inequality: The Philosophical Context

Greater concern for equality and equity in society could have guided policy to rapidly tackle disparities and entrenched poverty. However, since 1991, even equity has been given up as a goal due to the adoption of the philosophy of marketisation (*see* Chapter VII, Section 3). Now the individuals have to fend for themselves in the market as the state has progressively retreated strategically.

As pointed out earlier, the process of marketisation has led to the atomisation of individuals and legitimisation of the idea of maximisation of one's welfare irrespective of other considerations. This requires minimising costs. One of the costs an atomistic individual faces is feeling guilty about conditions in society. Such a feeling would require the individual to sacrifice to improve the lot of the marginalised. So to improve one's welfare, the feeling of guilt has to be minimised. If the poor can be blamed for their own condition and not society then no action is required by others. One can enjoy one's consumerist life without feeling guilty. One's actions are then not the cause of inequality or poverty. Similarly, guilt may prevent one from doing certain things, which may yield a personal gain but may be considered socially undesirable. To minimise this kind of guilt, social concerns need to be minimised by not taking a stand on issues and arguing against collective action which growing atomisation helps in. Following these trends in society, elite sections have stopped feeling guilty about their growing consumerism, growing disparities and the uncivilised conditions of existence of the marginalised sections. In their marketised thinking this is legitimate. It is akin to the colonisers legitimising exploitation of the colonised on the grounds that they are helping the latter become civilised, that exploitation was only incidental and due to the backwardness of the colonised.

The marginalised in society are also affected by the power of the ruling market philosophy and have adopted the consciousness of the elite groups. Their leadership itself marginalises the marginalised by, say, resorting to massive corruption and self-glorification (Chapter VI, Section 2). So, the marginalised in the market — women, children, Dalits, backward castes and minorities — remain politically marginalised; the issue is political.

The debate on poverty the world over, and especially in India, has been reduced to numbers and has been narrowed to a technical fix so that its political dimensions are ignored. It has not allowed the nation to focus on the wider aspects of its changing nature. Numbers are important but only as a part of a wider understanding and not in themselves.

Take the issue of justice in society, which enables societies to function smoothly. An aspect of it is economic justice, which determines the individual's position in the economic system and enables them to accept their place.

It enables the individual to accept inequality and poverty as a part of such a (just) system; the process of marketisation is attempting to do so. Discussions of poverty and inequality, based purely on changing numbers, removes it from the social and political discourse and lends a garb of justice to an inherently unjust situation.

The government has produced report after report to claim a decline in poverty to legitimise its policies. For instance, there is a controversy on whether or not the pace of poverty reduction declined after the launch of NEP in 1991; an idea to justify that growth alone can take care of poverty. However, this misses the point that the nature of poverty has altered after 1991 because of the changes in the basic parameters of society and economy (*see* Section 2.2.1 above). The pre- and post-1991 periods are not comparable due to commercialisation, privatisation and the price-line going out of sync with the consumption bundle. The rate of growth is claimed to have risen but distribution has worsened. How much has the growth rate really increased is also open to challenge because it is artificially boosted (*see* Kumar, 2006d). It is no one's case that poverty has suddenly emerged after 1991 but its persistence and increase are due to a change in its form and this needs to be understood.

The philosophical context of poverty is crucially linked to lack of dynamism in society and the weakness of democracy in which the voice of large numbers does not count. Both these limit society's capacity to deal with its problems and specially poverty. This impacts the marginals the most. While most are resigned to their lot, some who are creative fight and improve their lot. Society's loss of dynamism does not come about suddenly but is part of a historical process and colonialism contributed to it. But why has this continued since independence needs to be understood as a part of continuing disruption of society.

An aspect of marketisation is the narrow conception of man as homo-economicus (Chapter VII, Section 3.3) to the exclusion of other traditional motivations for action and modes of human interaction. Markets and technology, creations of society, have become the dominant forces in human life. They are taken to be "objective" while society is taken to be "subjective". Consequently, the issues of poverty and inequality, which have a social origin are of marginal concern and they only require a technical fix in the market because no wider view need be taken about them. The individual need not feel guilty about inequality or consumerism and policy can then ignore these issues.

Scientists are a part of the elite section of society and supposedly objective, unlike politicians, so their attitude towards poverty may be taken to be "objective". For them poverty is something in the distance so that on the one hand, they hardly empathise with the poor and on the other hand, they blame the poor for their own poverty. They tend to be atomistic in thought because they associate their achievements with their own efforts and not the social

conditions. They largely believe that failure (like poverty) is a result of lack of individual effort. Most scientists hardly reflect on the social reality and its underlying factors because they are not trained for such analysis and / or are too engrossed in their world. Mostly they discount the role of social processes (homo-economicus *par excellence*). They mostly adopt the dominant thinking and their "objectivity" is within a limited context. Thus, their skills and training for being objective is no guarantee of their ability to correctly understand social functioning.

Science is "universal" and scientists may be "objective" about nature, but that is no guarantee of their objectivity about society, which is a different "construct". Further, they are a product of society and subject to its dynamics, so it is difficult for them to separate themselves from their conditions of social existence. They are familiar with the interaction between the observer and the observed in Quantum Mechanics, which leads to the Heisenberg's Uncertainty Principle. This interaction is far stronger in society, since one is studying oneself. Hence, "objectivity" is even harder to achieve about social matters than in the sciences. Poverty impinges on the consciousness of the scientists since it is so stark and all pervasive in India, but since it is difficult to grasp given its complexity, they tend to ignore it and that is not difficult since their life conditions place them on the other side of the fence.

Most professional groups tend to think along such lines and that weakens the fight against poverty. Media is one professional group that has a powerful influence on social attitudes. In an earlier era, due to the influence of the national movement, it was far less commercialised and many in it believed that it had a social role as during the national movement. Even its owners were often anti-establishment and promoted critical thinking. However, in the current context, media has become highly commercialised with critical social content taking a back seat. It is far less of a "Fourth Estate" because it has come to be dominated by the corporate sector and has become pro-establishment. This is especially the case since 1991 with the government becoming India Inc. and wishing to project a positive image of India to the world. The issue of poverty is an impediment in that and consequently needs to be deemphasised.

There is a double problem, media persons as a professional group are inclined to be sceptical of poverty (like in the case of scientists) and the pressure from the corporate owners reinforces that. In fact, media has become an instrument of marginalisation of the issue of poverty in public perception. The public is being diverted to consumerism and good life and dumbed down *via* escapism so that the issue of poverty remains at the margins of their consciousness. For this, media is flooded with mechanisms to escape from the guilt associated with grinding poverty. Other powerful forces now contend for individual attention through programmes on TV based on sex, violence, crime, futurology and glamour. The print media with its third page

and second sections also attempts the same. Thus, the focus of attention of the elites and the rest shifts away from poverty and inequality and they move away from centre stage of public consciousness.

One may ask, when today the nation has the resources and the capacity to eliminate poverty why has this not happened over the last six decades, since independence? Resources are there, technology is available, skills exist but what is missing is the political will. For the basics of life, food, water, education and health, little needs to be imported (Kumar, 1994a). Where deficiencies exist, production can be easily reordered. But, to the ruling elite, these are not priorities since social and economic justice has little meaning in comparison to their own limited interest of joining the international elite.

Could international pressure, and especially from the developed world, work? Concern has been expressed, like with the formulation of the Millenium Development Goals (MDGs). There was talk of debt waiver for the poorest nations in the world. But, these are diversionary in nature. For international finance capital and the dominant world power, the USA, the goal is world domination and other things are incidental. The US has often interfered in the affairs of other nations, to change regimes to get more pliable ones to power so as to be able to control their resources, such as in Latin America and the Middle East — East European nations and the CIS states are more recent examples. They have cultivated groups within weak nation states that collaborate with them in establishing political control and India is no exception. In the name of strategic partnership with the USA in a unipolar ideological world, many among the ruling elite believe that by collaborating, India can obtain a share of the global pie. They see this in their narrow interest of joining the international elite. For their own short-term interest they are willing to compromise with the long-term interest and allow the exploitation of the country and its marginalised. The poor counted for little earlier and now count for even less in the marketised economy being created. This is politically an unstable and explosive situation and especially in India, which has a functional, but, decrepit democracy.

In brief, while after independence, the goal was Western modernity and removal of poverty through trickle down, after 1991, the poor were supposed to become better off through the operation of the markets and the strategic retreat of the government. Both these philosophies practiced by the ruling elite marginalised the poor just like the colonial rule marginalised the colonised in the name of civilising the barbarians. That is why the obvious has not happened for so long for the marginalised, even after gaining political independence from colonial rule. For the marginalised, the glorious future is always ahead — 1947, 1980, 2001, 2020 and so on. (*see* Table 10.8) The challenge of poverty and inequality is civilisational; we have to decide on what kind of society we wish to be — outward orientation cannot help but is only a smoke-screen for something else.

Table 10.8

Number and Percentage of Population Below Poverty Line, by State and Sector

Year	*State / Union Territory*	*Rural*			*Urban*			*Combined*	
		No. of persons (Lakh)	*% of persons*	*Poverty line (₹)*	*No. of persons (Lakh)*	*% of persons*	*Poverty line (₹)*	*No. of persons (Lakh)*	*% of persons*
1973-74	Andhra Pradesh	178.21	48.41	41.71	47.48	50.61	53.96	225.69	48.86
	Arunachal Pradesh	2.57	52.67	.	0.09	36.92	.	2.66	51.93
	Assam	76.37	52.67	49.82	5.46	36.92	50.26	81.83	51.21
	Bihar	336.52	62.99	57.68	34.05	52.96	61.27	370.57	61.91
	Goa	3.16	46.85	50.47	1.00	37.69	59.48	4.16	44.26
	Gujarat	94.61	46.35	47.10	43.81	52.57	62.17	138.42	48.15
	Haryana	30.08	34.23	49.95	8.24	40.18	52.42	38.32	35.36
	Himachal Pradesh	9.38	27.42	49.95	0.35	13.17	51.93	9.73	26.39
	Jammu & Kashmir	18.41	45.51	46.59	2.07	21.32	37.17	20.48	40.83
	Karnataka	128.40	55.14	47.24	42.27	52.53	58.22	170.67	54.47
	Kerala	111.36	59.19	51.68	24.16	62.74	62.78	135.52	59.79
	Madhya Pradesh	231.21	62.66	50.20	45.09	57.65	63.02	276.30	61.78
	Maharashtra	210.84	57.71	50.47	76.58	43.87	59.48	287.42	53.24
	Manipur	5.11	52.67	.	0.75	36.92	.	5.86	49.96
	Meghalaya	4.88	52.67	.	0.64	36.92	.	5.52	50.20
	Mizoram	1.62	52.67	.	0.20	36.92	.	1.82	50.32
	Nagaland	2.65	52.67	.	0.25	36.92	.	2.90	50.81
	Orissa	142.24	67.28	46.87	12.23	55.62	59.34	154.47	66.18
	Punjab	30.47	28.21	49.95	10.02	27.96	51.93	40.49	28.15
	Rajasthan	101.41	44.76	50.96	27.10	52.13	59.99	128.51	46.14
	Sikkim	1.09	52.67	.	0.10	36.92	.	1.19	50.86

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
1973-74	Tamil Nadu	172.60	57.43	45.09	66.92	49.40	51.54	239.52	54.94
	Tripura	7.88	52.67	.	0.66	36.92	.	8.54	51.00
	Uttar Pradesh	449.99	56.53	48.92	85.74	60.09	57.37	535.73	57.07
	West Bengal	257.96	73.16	54.49	41.34	34.67	54.81	299.30	63.43
	Andaman & Nicobar Islands	0.59	57.43	.	0.15	49.40	.	0.74	55.56
	Chandigarh	0.07	27.96	.	0.77	27.96	.	0.84	27.96
	Dadra & Nagar Haveli	0.37	46.85	50.47	0.01	37.69	59.48	0.38	46.55
	Daman & Diu	.	.	.	.	.	.	.	.
	Delhi	1.06	24.44	49.95	21.78	52.23	67.95	22.84	49.61
	Lakshadweep	0.18	59.19	.	0.03	62.74	.	0.21	59.68
	Puducherry	1.61	57.43	.	1.13	49.40	.	2.74	53.82
	All India	2,612.90	56.44	49.63	600.46	49.01	56.64	3,213.36	54.88
1983-84	Andhra Pradesh	114.34	26.53	72.66	50.24	36.30	106.43	164.58	28.91
	Arunachal Pradesh	2.70	42.60	98.32	0.12	21.73	97.51	2.82	40.88
	Assam	73.43	42.60	98.32	4.26	21.73	97.51	77.69	40.47
	Bihar	417.70	64.37	97.48	44.35	47.33	111.80	462.05	62.22
	Goa	1.16	14.81	88.24	1.07	27.00	126.47	2.23	18.90
	Gujarat	72.88	29.80	83.29	45.04	39.14	123.22	117.92	32.79
	Haryana	22.03	20.56	88.57	7.57	24.15	103.48	29.60	21.37
	Himachal Pradesh	7.07	17.00	88.57	0.34	9.43	102.26	7.41	16.40
	Jammu & Kashmir	13.11	26.04	91.75	2.49	17.76	99.62	15.60	24.24
	Karnataka	100.50	36.33	83.31	49.31	42.82	120.19	149.81	38.24

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
1983-84	Kerala	81.62	39.03	99.35	25.15	45.68	122.64	106.77	40.42
	Madhya Pradesh	215.48	48.90	83.59	62.49	53.06	122.82	277.97	49.78
	Maharashtra	193.75	45.23	88.24	97.14	40.26	126.47	290.89	43.44
	Manipur	4.76	42.60	98.32	0.89	21.73	97.51	5.65	37.02
	Meghalaya	5.04	42.60	98.32	0.57	21.73	97.51	5.62	38.81
	Mizoram	1.58	42.60	98.32	0.37	21.73	97.51	1.96	36.00
	Nagaland	3.19	42.60	98.32	0.31	21.73	97.51	3.50	39.25
	Orissa	164.65	67.53	106.28	16.66	49.15	124.81	181.31	65.29
	Punjab	16.79	13.20	88.57	11.85	23.79	101.03	28.64	16.18
	Rajasthan	96.77	33.50	80.24	30.06	37.94	113.55	126.83	34.46
	Sikkim	1.24	42.60	98.32	0.10	21.73	97.51	1.35	39.71
	Tamil Nadu	181.61	53.99	96.15	78.46	46.96	120.30	260.07	51.66
	Tripura	8.35	42.60	98.32	0.60	21.73	97.51	8.95	40.03
	Uttar Pradesh	448.03	46.45	83.85	108.71	49.82	110.23	556.74	47.07
	West Bengal	268.60	63.05	105.55	50.09	32.32	105.91	318.69	54.85
	Andaman & Nicobar Islands	0.84	53.99	96.15	0.26	46.96	120.30	1.11	52.13
	Chandigarh	0.09	23.79	101.03	1.10	23.79	101.03	1.19	23.79
	Dadra & Nagar Haveli	0.16	14.81	88.24	0.02	27.00	126.47	0.18	15.67
	Delhi	0.44	7.66	88.57	17.95	27.89	123.29	18.39	26.22
	Lakshadweep	0.09	39.03	99.35	0.10	45.68	122.64	0.19	42.36
	Puducherry	1.56	53.99	96.15	1.72	46.96	120.30	3.28	50.06

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
1983-84	All India	2,519.57	45.65	89.50	709.40	40.79	115.65	3,228.97	44.48
1993-94	Andhra Pradesh	74.49	15.92	163.02	74.47	38.33	278.14	153.97	22.19
	Arunachal Pradesh	3.62	45.01	232.05	0.11	7.73	212.42	3.73	39.35
	Assam	94.33	45.01	232.05	2.03	7.73	212.42	96.36	40.86
	Bihar	450.86	58.21	212.16	42.49	34.50	238.49	493.35	54.96
	Goa	0.38	5.34	194.94	1.53	27.03	328.56	1.91	14.92
	Gujarat	62.16	22.18	202.11	43.02	27.89	297.22	105.19	24.21
	Haryana	36.56	28.02	233.79	7.31	16.38	258.23	43.88	25.05
	Himachal Pradesh	15.40	30.34	233.79	0.46	9.18	253.61	15.86	28.44
	Jammu & Kashmir	19.05	30.34	233.79	1.86	9.18	253.61	20.92	25.17
	Karnataka	95.99	29.88	186.63	60.46	40.14	302.89	156.46	33.16
	Kerala	55.95	25.76	243.84	20.46	24.55	280.54	76.41	25.43
	Madhya Pradesh	216.19	40.64	193.10	82.33	48.38	317.16	298.52	42.52
	Maharashtra	193.33	37.93	194.94	111.90	35.15	328.56	305.22	36.86
	Manipur	6.33	45.01	232.05	0.47	7.73	212.42	6.80	33.78
	Meghalaya	7.09	45.01	232.05	0.29	7.73	212.42	7.38	37.92
	Mizoram	1.64	45.01	232.05	0.30	7.73	212.42	1.94	25.66
	Nagaland	4.85	45.01	232.05	0.20	7.73	212.42	5.05	37.92
	Orissa	140.90	49.72	194.03	19.70	41.64	298.22	160.60	48.56
	Punjab	17.76	11.95	233.79	7.35	11.35	253.61	25.11	11.77
	Rajasthan	94.68	26.46	215.89	33.82	30.49	280.85	128.50	27.41
	Sikkim	1.81	45.01	232.05	0.03	7.73	212.42	1.84	41.43
	Tamil Nadu	121.70	32.48	196.53	80.40	39.77	296.63	202.10	35.03

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
1993-94	Tripura	11.41	45.01	232.05	0.38	7.73	212.42	11.79	39.01
	Uttar Pradesh	496.17	42.28	213.01	108.28	35.39	258.65	604.46	40.85
	West Bengal	209.90	40.80	220.74	44.66	22.41	247.53	254.56	35.66
	Andaman & Nicobar Islands	0.73	32.48	196.53	0.33	39.77	296.63	1.06	34.47
	Chandigarh	0.07	11.35	253.61	0.73	11.35	253.61	0.80	11.35
	Dadra & Nagar Haveli	0.72	51.95	194.94	0.06	39.93	328.56	0.77	50.84
	Daman & Diu	0.03	5.34	194.94	0.15	27.03	328.56	0.18	15.80
	Delhi	0.19	1.90	233.79	15.32	16.03	309.48	15.51	14.69
	Lakshadweep	0.06	25.76	243.84	0.08	24.55	280.54	0.14	25.04
	Puducherry	0.93	32.48	196.53	2.38	39.77	296.63	3.31	37.40
	All India	2,440.31	37.27	205.84	763.37	32.36	281.35	3,203.67	35.97
1999-00 (30-day Recall Period)	Andhra Pradesh	58.13	11.05	262.94	60.88	26.63	457.40	119.01	15.77
	Arunachal Pradesh	3.80	40.04	365.43	0.18	7.47	343.99	3.98	33.47
	Assam	92.17	40.04	365.43	2.38	7.47	343.99	94.55	36.09
	Bihar	376.51	44.30	333.07	49.13	32.91	379.78	425.64	42.60
	Goa	0.11	1.35	318.63	0.59	7.52	539.71	0.70	4.40
	Gujarat	39.80	13.17	318.94	28.09	15.59	474.41	67.89	14.07
	Haryana	11.94	8.27	362.81	5.39	9.99	420.20	17.34	8.74
	Himachal Pradesh	4.84	7.94	367.45	0.29	4.63	420.20	5.12	7.63
	Jammu & Kashmir	2.97	3.97	367.45	0.49	1.98	420.20	3.46	3.48

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
1999-00 (30-day Recall Period)	Karnataka	59.91	17.38	309.59	44.49	25.25	511.44	104.40	20.04
	Kerala	20.97	9.38	374.79	20.07	20.27	477.06	41.04	12.72
	Madhya Pradesh	217.32	37.06	311.34	81.22	38.44	481.65	298.54	37.43
	Maharashtra	125.12	23.72	318.63	102.87	26.81	539.71	227.99	25.02
	Manipur	6.53	40.04	365.43	0.66	7.47	343.99	7.19	28.54
	Meghalaya	7.89	40.04	365.43	0.34	7.47	343.99	8.23	33.87
	Mizoram	1.40	40.04	365.43	0.45	7.47	343.99	1.85	19.47
	Nagaland	5.21	40.04	365.43	0.28	7.47	343.99	5.49	32.67
	Orissa	143.69	48.01	323.92	25.40	42.83	473.12	169.09	47.15
	Punjab	10.20	6.35	362.68	4.29	5.75	388.15	14.49	6.16
	Rajasthan	55.06	13.74	344.03	26.78	19.85	465.92	81.83	15.28
	Sikkim	2.00	40.04	365.43	0.04	7.47	343.99	2.05	36.55
	Tamil Nadu	80.51	20.55	307.64	49.97	22.11	475.60	130.48	21.12
	Tripura	12.53	40.04	365.43	0.49	7.47	343.99	13.02	34.44
	Uttar Pradesh	412.01	31.22	336.88	117.88	30.89	416.29	529.89	31.15
	West Bengal	180.11	31.85	350.17	33.38	14.86	409.22	213.49	27.02
	Andaman & Nicobar Islands	0.58	20.55	307.64	0.24	22.11	475.60	0.82	20.99
	Chandigarh	0.06	5.75	388.15	0.45	5.75	388.15	0.51	5.75
	Dadra & Nagar Haveli	0.30	17.57	318.63	0.03	13.52	539.71	0.33	17.14
	Daman & Diu	0.01	1.35	318.63	0.05	7.52	539.71	0.06	4.44

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
1999-00 (30-day Recall Period)	Delhi	0.07	0.40	362.68	11.42	9.42	505.45	11.49	8.23
	Lakshadweep	0.03	9.38	374.79	0.08	20.27	477.06	0.11	15.60
	Puducherry	0.64	20.55	307.64	1.77	22.11	475.60	2.41	21.67
	All India	1,932.43	27.09	327.56	670.07	23.62	454.11	2,602.50	26.10
2004-05 (Based on MRP Consumption)	Andhra Pradesh	43.21	7.50	292.95	45.50	20.70	542.89	88.71	11.10
	Arunachal Pradesh	1.47	17.00	387.64	0.07	2.40	378.84	1.54	13.40
	Assam	41.46	17.00	387.64	0.93	2.40	378.84	42.39	15.00
	Bihar	262.92	32.90	354.36	27.09	28.90	435.00	290.01	32.50
	Chhattisgarh	54.72	31.20	322.41	16.39	34.70	560.00	71.11	32.00
	Goa	0.13	1.90	362.25	1.62	20.90	665.90	1.74	12.00
	Gujarat	46.25	13.90	353.93	21.18	10.10	541.16	67.43	12.50
	Haryana	14.57	9.20	414.76	7.99	11.30	504.49	22.56	9.90
	Himachal Pradesh	4.10	7.20	394.28	0.17	2.60	504.49	4.27	6.70
	Jammu & Kashmir	2.20	2.70	391.26	2.34	8.50	553.77	4.54	4.20
	Jharkhand	89.76	40.20	366.56	10.63	16.30	451.24	100.39	34.80
	Karnataka	43.33	12.00	324.17	53.28	27.20	599.66	96.60	17.40
	Kerala	23.59	9.60	430.12	13.92	16.40	559.39	37.51	11.40
	Madhya Pradesh	141.99	29.80	327.78	66.97	39.30	570.15	210.97	32.40
	Maharashtra	128.43	22.20	362.25	131.40	29.00	665.90	259.83	25.20
	Manipur	2.86	17.00	387.64	0.14	2.40	378.84	3.00	13.20

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
2004-05 (Based on MRP Consumption)	Meghalaya	3.32	17.00	387.64	0.12	2.40	378.84	3.43	14.10
	Mizoram	0.78	17.00	387.64	0.11	2.40	378.84	0.89	9.50
	Nagaland	2.94	17.00	387.64	0.09	2.40	378.84	3.03	14.50
	Orissa	129.29	39.80	325.79	24.30	40.30	528.49	153.59	39.90
	Punjab	9.78	5.90	410.38	3.52	3.80	466.16	13.30	5.20
	Rajasthan	66.69	14.30	374.57	40.50	28.10	559.63	107.18	17.50
	Sikkim	0.85	17.00	387.64	0.02	2.40	378.84	0.87	15.20
	Tamil Nadu	56.51	16.90	351.86	58.59	18.80	547.42	115.10	17.80
	Tripura	4.70	17.00	387.64	0.14	2.40	378.84	4.85	14.40
	Uttar Pradesh	357.68	25.30	365.84	100.47	26.30	483.26	458.15	25.50
	Uttarakhand	21.11	31.70	478.02	7.75	32.00	637.67	28.86	31.80
	West Bengal	146.59	24.20	382.82	26.64	11.20	449.32	173.23	20.60
	Andaman & Nicobar Islands	0.44	16.90	351.86	0.27	18.80	547.42	0.71	17.60
	Chandigarh	0.04	3.80	410.38	0.36	3.80	466.16	0.40	3.80
	Dadra & Nagar Haveli	0.62	36.00	362.25	0.16	19.20	665.90	0.77	30.60
	Daman & Diu	0.03	1.90	362.25	0.14	20.80	665.90	0.16	8.00
	Delhi	0.01	0.10	410.38	15.83	10.80	612.91	15.83	10.20
	Lakshadweep	0.04	9.60	430.12	0.05	16.40	559.39	0.09	12.30
	Puducherry	0.58	16.90	351.86	1.34	18.80	547.42	1.92	18.20

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
2004-05 (Based on MRP Consumption)	All India	1,702.99	21.80	356.30	682.00	21.70	538.60	2,384.99	21.80
2004-05 (Based on URP Consumption)	Andhra Pradesh	64.70	11.20	292.95	61.40	28.00	542.89	126.10	15.80
	Arunachal Pradesh	1.94	22.30	387.64	0.09	3.30	378.84	2.03	17.60
	Assam	54.50	22.30	387.64	1.28	3.30	378.84	55.77	19.70
	Bihar	336.72	42.10	354.36	32.42	34.60	435.00	369.15	41.40
	Chhattisgarh	71.50	40.80	322.41	19.47	41.20	560.00	90.96	40.90
	Goa	0.36	5.40	362.25	1.64	21.30	665.90	2.01	13.80
	Gujarat	63.49	19.10	353.93	27.19	13.00	541.16	90.69	16.80
	Haryana	21.49	13.60	414.76	10.60	15.10	504.49	32.10	14.00
	Himachal Pradesh	6.14	10.70	394.28	0.22	3.40	504.49	6.36	10.00
	Jammu & Kashmir	3.66	4.60	391.26	2.19	7.90	553.77	5.85	5.40
	Jharkhand	103.19	46.30	366.56	13.20	20.20	451.24	116.39	40.30
	Karnataka	75.05	20.80	324.17	63.83	32.60	599.66	138.89	25.00
	Kerala	32.43	13.20	430.12	17.17	20.20	559.39	49.60	15.00
	Madhya Pradesh	175.65	36.90	327.78	74.03	42.10	570.15	249.68	38.30
	Maharashtra	171.13	29.60	362.25	146.25	32.20	665.90	317.38	30.70
	Manipur	3.76	22.30	387.64	0.20	3.30	378.84	3.95	17.30
	Meghalaya	4.36	22.30	387.64	0.16	3.30	378.84	4.52	18.50
	Mizoram	1.02	22.30	387.64	0.16	3.30	378.84	1.18	12.60

(Contd. . .)

Table 10.8 *(. . .contd)*

Year	State / Union Territory	Rural			Urban			Combined	
		No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons	Poverty line (₹)	No. of persons (Lakh)	% of persons
	Nagaland	3.87	22.30	387.64	0.12	3.30	378.84	3.99	19.00
	Orissa	151.75	46.80	325.79	26.74	44.30	528.49	178.49	46.40
	Punjab	15.12	9.10	410.38	6.50	7.10	466.16	21.63	8.40
	Rajasthan	87.38	18.70	374.57	47.51	32.90	559.63	134.89	22.10
	Sikkim	1.12	22.30	387.64	0.02	3.30	378.84	1.14	20.10
	Tamil Nadu	76.50	22.80	351.86	69.13	22.20	547.42	145.62	22.50
	Tripura	6.18	22.30	387.64	0.20	3.30	378.84	6.38	18.90
	Uttar Pradesh	473.00	33.40	365.84	117.03	30.60	483.26	590.03	32.80
	Uttarakhand	27.11	40.80	478.02	8.85	36.50	637.67	35.96	39.60
	West Bengal	173.22	28.60	382.82	35.14	14.80	449.32	208.36	24.70
	Andaman & Nicobar Islands	0.60	22.90	351.86	0.32	22.20	547.42	0.92	22.60
	Chandigarh	0.08	7.10	410.38	0.67	7.10	466.16	0.74	7.10
	Dadra & Nagar Haveli	0.68	39.80	362.25	0.15	19.10	665.90	0.84	33.20
	Daman & Diu	0.07	5.40	362.25	0.14	21.20	665.90	0.21	10.50
	Delhi	0.63	6.90	410.38	22.30	15.20	612.91	22.93	14.70
	Lakshadweep	0.06	13.30	430.12	0.06	20.20	559.39	0.11	16.00
	Puducherry	0.78	22.90	351.86	1.59	22.20	547.42	2.37	22.40
	All India	2,209.24	28.30	356.30	807.96	25.70	538.60	3,017.20	27.50

Source: Planning Commission, Government of India.

Note: MRP: Mixed Recall Period.
URP: Uniform Recall Period

5. Environment, Poverty and the Marginalised

India is one of the most polluted countries in the world. For instance, Indian cities are some of the most polluted compared to even similar size and developing cities in the world (World Bank, 2007: 174-175). There has been talk of a brown cloud over the S. Asian sub-continent visible from space. Similarly, Indian rivers are heavily polluted (WWF, 2007). Often the marginalised are blamed for their own poverty due to the impact their actions have on the environment. It is suggested that they over-use resources because of their poverty and thereby damage the environment, leading to consequences which aggravate their poverty. In effect, they get trapped in a vicious cycle of poverty and environmental degradation. This was supposedly stated by Mrs. Gandhi in the Stockholm Conference in 1974 as "Poverty Pollutes". How correct is this picture?

Poverty implies a low resource base for the poor, which forces the individuals to look for free goods of nature and to over-exploiting them where possible — this may be in production or in consumption or due to their susceptibility to corruption by the powerful. All three result in environmental degradation. However, this may pale into insignificance in comparison to what the privatisation of natural resources is doing, like open cast mining for coal or iron ore. Private sector with its short-term perspective based on profit maximisation cares little for nature — whether Ridley turtles or whales or tigers survive is not their concern. They are not only sources of profit for them but actually add to the costs if they have to be preserved, thereby lowering profits. After 1991, the government has reduced / diluted environmental regulations as a concession to capital to increase their profits so as to encourage investment. It is also true that local communities have weakened and are unable to resist big money as is the case in many SEZs.

5.1. Poverty and Pollution

The problem confronting India is that at a very low level of per capita income and consumption compared to even the developing countries, the pollution of rivers and air is some of the worst in the world. Consequently, people are confronted with severe health-related problems caused by environmental degradation. This is partly a result of poverty and ignorance about the nature of new technologies (like in the case of use of pesticides or use of GM technology in agriculture) but more substantially a result of some of the worst violation of rules by the producers who try to generate extra profits by cutting corners (Kumar, 1999). Example is often given of the poor cutting wood from the forests to cook or to construct, which leads to over-exploitation and the denudation of forests. They are also supposed to over-

graze the commons. While there is some truth in this, the reality is that indiscriminate felling of trees and over-exploitation of forests is done far more systematically by the contractors who bribe the officialdom and the political class. The poor, when they cut extra wood for self use, have to pay bribes and only do it for a limited purpose. Often, the link of environmental degradation due to over-exploitation is more with the black economy and less with poverty.

Many laws are only on paper since they are systematically violated, like pollution control laws, discharge of industrial effluents in rivers or releasing untreated smoke into the atmosphere, to generate extra profits both in white and in black. This results in pollution of air and water and production of shoddy goods, which easily break down and need extra repairs and result in wastage of resources. These examples are indicators of weak governance, waste of resources and inability to tackle poverty.

The poor and the lower classes consume poor quality goods whether food stuffs, consumer durables or FMCG. Water, grain, vegetables, oil, soap, tobacco, etc., consumed by the poor are of low quality and that often affects their health and forces them to spend more on health care (*see*, Smith, *et al.*, 1999 and WHO, 2002). The consumer durables they buy like the utensils or the watch are of poor quality and easily break down. To keep prices low, these goods are produced with very low margins and with little safety precautions so that it damages the environment. The workers in units producing these shoddy goods have to work under adverse conditions with no safety precautions, so that their health is adversely affected. For instance, one can see farm workers spraying pesticides with little protection. Thus, the workers suffer both in the production process and in consumption.

However, the bulk of the consumption in the economy is not by the poor (who consume little) but by the better-off sections. The latter's consumption of large quantities of all kinds of resources is the principal cause of environmental degradation. Each rich individual in India (spending perhaps ₹ 1,200 per day, including from their black incomes) consumes the resources that 80 poor people (₹ 15 per day) consume. Thus, 1% of the population with substantial black incomes would consume as much resources as all the poor (80%) consume. Further, it is the poor who recycle resources on a large-scale and save the environment from further degradation while the rich resort to waste. So, recycling of plastics, paper and other industrial products from garbage and litter strewn about is done by the poor (rag pickers and the kabadiwalas) on a large scale. The poor buy the second-hand goods that the rich discard. If this recycling is factored in, the adverse impact of the poor on the environment would be far lower than that due to the consumption of the well-off sections of the population. This is no different from the situation

of the developing countries *vis-a-vis* the advanced nations that consume far more per capita and, therefore, pollute far more in per capita terms.

In brief, in India, pollution relates to consumption in society, the production processes used, poor civic sense and the widespread violation of environmental rules through corruption. Consumption can be divided into two parts, that by the well-off in society and the rest. In a poor society like India, the former are few in number but they together consume as much, if not more than the rest, and therefore, are responsible for most of the pollution. The poor may over-exploit resources, especially the free goods, but they also recycle the waste both in production and the consumption of the well-off and thereby prevent pollution levels from rising. Hence, overall they pollute far less in spite of their vast numbers. The poor also work in appalling conditions to produce goods cheap both for the well-off and themselves and that also results in an adverse impact on the environment and the health of the people. Thus, while poverty pollutes, the bigger culprit is the consumption of the well-off.

5.2 Kuznet's Curve and the Developing Countries

In the context of development, an environmental Kuznet's curve with an inverted U shape (*see*, Selden and Song, 1994 or Dasgupta, *et al.* 2002) is proposed. This is a relationship between the level of pollution and the per capita income of countries. It suggests that as the per capita incomes of poor countries rise, their pollution levels rise because they do not have the resources to either clean up or use better technologies. As they progress, it is suggested that they reach a maximum of pollution and then as the incomes rise further the pollution levels start to fall because they can afford to clean up the environment. This is only partly true since the per capita consumption of the poorer countries is low so that their total consumption is also low and correspondingly they ought to pollute less per capita. The higher per capita pollution is the result of excessive exploitation of free goods of nature (such as commons and forests) and the use of more polluting technology in production (such as brick kilns) and consumption (such as polluting public transport and cheap dhabas for food). But this is counter-balanced by the massive recycling of goods and of waste in the poorer countries.

The other part of the story is the pollution resulting from the production by the poor countries for consumption by the rich countries. The developing countries are competing with each other to produce cheaply for export to the developed countries. For this they are cutting all costs, such as paying low wages and relaxing environmental regulations. To produce energy cheaply they produce electricity from plants that spew pollutants and operate coal mines with minimal safety resulting in accidents and production of dirty coal.

Kumar (1994a) gives a list of environmental regulations that were relaxed with the launch of NEP in India in 1991. The developing world is also polluting its environment because it is recycling the waste of the advanced world, such as toxic waste from hospitals and landfill sites, lead acid, ships, metal scrap from war zones containing unspent ammunition and computer waste.

As pointed out in Chapter VII, Section 3.4, one-way globalisation is leading to a new international division of labour with the developing world increasingly producing goods that are cheap and which pollute more because of use of dirty or old technology and the developed world producing clean goods using advanced technology. Thus, the advanced world is able to keep its environment cleaner while the developing world's environment gets more polluted. This is an important aspect of the shape of the Kuznet's curve — the export of pollution from the developed to the developing world. The developing world is forced into certain kinds of polluting production due to its modernisation imperatives.

Larry Summers, the then Chief Economist of World Bank, has argued that it would be far more efficient for people to die of cancer in the developing world than in the developed world. Thus, dirty production, which can potentially cause cancer, should be entirely relocated to the developing world (Kelly and D'Souza, 2010: 30). This illustrates the pure functioning of the market where life is valued only in monetary terms.

In India, the elite in their headlong rush to globalise and modernise have forced the economy to move in a direction that would benefit them through increased exports and imports (as a per cent of GDP) and allowing them greater consumption of the international luxury goods (the demonstration effect). Due to lack of indigenously available competitive technology, this is possible only through greater dependence on imports and, therefore, greater exports, which involves the cheapening of products by greater exploitation of workers, especially in the unorganised sectors and the indiscriminate exploitation of nature to the detriment of the environment. The chosen path of development and the current weak position of India in the international economy have forced such a choice on the poor in the country.

In brief, the poor in India (and in the developing world in general) constitute the reserve army of labour producing goods cheap for the developed world and the Indian elite ruling class. They are forced to work at low wages and produce cheaply for the global elite and thereby pollute their environment.

5.3 Pollution and Social Waste

As argued in Chapter V, Section 4.5, profit maximisation can be consistent with social waste, especially with weak governance (Chapter VIII, Section 6.3). In turn, social waste is linked to the inefficiency of the markets because

expenditures have to be higher to achieve a certain goal or there is no useful output associated with such waste so that the environment gets damaged directly and indirectly. For instance, equipment purchased may be of poor quality and due to fluctuations in the voltage of electricity supplied, breaks down. To compound the problem, repairs are carried out such that the equipment breaks down repeatedly and needs further repairs. This is partly deliberate to maximise profits and partly due to the poor training of the skilled workers. There is all-round waste, which results in greater pollution.

Waste is also a result of the consumerist lifestyle amongst the elite classes in capitalism. People are encouraged to buy new products and discard the earlier ones — whether an item of clothing as fashions change or a new model of a cell phone or laptop — because one is bored. Individuals are kept dissatisfied through advertising and competition, promoted amongst the peer group so that the individual feels better through one upmanship. In these examples, waste is integral to upward social mobility and encouraged. So, environmental degradation has become a part of the social existence of the consumerist elite class.

Kumar (2006d) argues that there are many such features of the current Indian economy, which also result in double counting in national income. For instance, there is value addition in activities, which generate pollution and then income is generated in cleaning it up. Actually, the latter part should be subtracted so that the income generation should be lower. Take the example of pollution causing damage to health and requiring medical treatment, which results in the rapid growth of the health-care sector in GDP (whereas it should be subtracted). Thus, the GDP contribution of certain fast-growing sectors should be corrected downwards so that the growth of the economy would turn out to be lower. This kind of growth not only does not improve human welfare but actually decreases it. Hence, in these cases, faster growth will increase poverty and not decrease it.

Lack of green accounting is another reason to discount the faster growth of the economy. Natural resources (minerals, underground water, forests, etc.) are being used up on a large scale and these cannot be replenished or that will happen only over the long run. So, there is a need to discount these factors.

In this context, one can ask, in what sense can the West be a symbol of progress as assumed by the elite ruling groups? Can its impact on the social consciousness of the increasingly atomised and consumerist individuals be called progress or does it constitute a retrogression? Gandhi (1909) argued that Western modernity does not lead to progress for mankind. He saw this in its various aspects — consumerism, waste, weakening of the individual, violence of all kind, conflict between nature and society and the accentuation of the fundamental contradiction between nature and man. He saw that

the Western notion of modernity can only sustain society for a limited period of time and threaten society's long-term survivability. Nehru and the elite leadership of the country differed from Gandhi in their reading of the Western civilisation. They saw progress in it because they discounted the long-run. All the negatives were considered to be minor features that could be dealt with.

Society's long-term survivability requires a careful use of resources and curbing of waste. It is said that if everyone on this planet wished to consume like an average US citizen, six Earths would be needed but we have one only. In this context, consider a journey to Moon or Mars (Preface, Section 2.1). Every gram of material carried on the space ship has to be carefully calibrated — the amount of scientific equipment, fuel, food, water, etc. For a journey to the Moon, lasting a week perhaps no recycling is needed but for a journey to Mars lasting a few years, everything that is consumed, like, food and water would have to be recycled. Energy from the Sun would have to be efficiently harnessed rather than carrying most of it from the Earth. Longer the trip, bigger would the ship have to be and more and more things would have to be recycled. It is in this sense that the planet Earth is a spaceship that has existed for the last few billion years and has to sustain life for the coming few billion years. It has enormous resources but these would be inadequate for the coming billions of years if wasted. Already, the waste is causing stress for life through global warming and climate change and the future appears to be uncertain, especially for the poor who live at the margin and India has the largest number of them (*see* Stern, 2007 for a survey of these issues).

5.4 Pollution and Technology

There is an important aspect of technology that complicates matters. The poor and the marginalised are also illiterate or ill-educated and lack skills so that they do not understand modern technology and cannot use it the way it should be used. Even for those who have developed the modern technologies taking a holistic view has been difficult so that they find that the solutions they propose turn out to be non-solutions. Then is it realistic to expect the poor, who do not understand these technologies, to be able to use the modern technologies in a non-polluting way? They are skilled in traditional technologies but with regard to the modern ones, they are unskilled.

The full impact of modern technologies taken together is global in nature and often that is not even clear to even those have developed these technologies. They are finding newer and newer areas where the environment gets damaged. Like, incandescent bulbs are energy intensive so there was a move to use tubelights and now CFL but both contain mercury, which have led to

a serious problem of mercury poisoning. As already argued, many solutions turn out to be non-solutions resulting in newer problems in different areas, and over time, all of them are cumulatively leading to unanticipated effects, which are getting harder and harder to deal with. For instance, the use of pesticide DDT initially killed mosquitoes but newer resistant strains developed and the soil and the water got polluted, which affected fish and then people and the problem of malaria returned with a vengeance and we do not have a solution to tackling the newer strains.

The use of antibiotics has saved many a life and increased longevity. But, is this temporary, till newer, more virulent bugs appear and shorten the life span once again. Even if we are able to evolve newer antibiotics and procedures to deal with diseases (new or old), the cost of dealing with them is rising and many are getting priced out of the market. The poor who evolved ways of living in harmony with nature and dealing with the older kinds of bugs have no resistance to the new ones and neither know how to deal with the newer diseases nor have access to modern medicine, so that they suffer more.

For instance, antibiotics kill even the good organisms in the intestines. Their use changes the balance between the various organisms in the guts. This not only results in side effects due to changes in digestion but also in the growth of newer organisms in the gut, which the body may not be able to cope with. Some of these organisms would have been kept in check by their predators but now in the absence of the latter the former can grow unchecked and create problems for the human body. Not only this, antibiotics are chemicals that are toxic to organisms and, therefore, also affect the human body cells and increase the toxicity in the body. They are not a part of a holistic solution, so that while curing a part they also create problems for the whole.

Since cures are not holistic, they cumulatively cause problems for the body. Thus, while longevity may increase, one may ask whether one can be healthy in old age. Age and lifestyle-related diseases are manifesting themselves in a big way which makes old age difficult to cope with. This has created a lot of stress all around. Thus, while modern medicine and emergence of newer chemicals has been beneficial to society, the question remains at what financial and social cost and also whether a holistic alternative to all these exist (Marsa, 2008)? The poor who are unable to afford the modern expensive health-care are the worst sufferers. In the US, the most prosperous society in the world, the poor eat the cheaper unhealthy food and suffer from diseases that they cannot cope with because they cannot afford the expensive health-care and consequently suffer from high levels of tension. The USA spends 17% of GDP on health but is its population healthy.

The risk involved in using newer technology rises because of a lack of complete understanding of its consequences. In an earlier age, new technologies neither had global effects nor came in rapidly. This is not true today so the chance of impacting the global environment and society has risen dramatically. For instance, nano-technology, which is being increasingly used, has many associated dangers. One may be letting lose a genie which will be difficult to bottle later on. Nuclear power is supposed to be clean since it does not generate greenhouse gases. But its use requires highly toxic processing, both before (like producing uranium ores with highly toxic chemicals) and after (reprocessing of spent fuel). An accident like Chernobyl is highly damaging but these costs of potential accidents are hardly taken into account and nuclear energy is declared to be clean — is this till problems accumulate. However, when a problem arises, its scale would be unsurpassed (like Chernobyl) and would endanger a large population unlike the less advanced earlier technologies. For instance, were a Chernobyl-like disaster to occur in India, the scale of human suffering would be orders of magnitude greater.

Rapid increase in the use of nuclear technology and nano-technologies points to our disregard for how we evolved. Life emerged away from where toxic materials were or the toxic materials had settled down to become benign or they had been diluted or buried deep underground. Mankind is disturbing this entire structure (this is what pollution is), which had evolved over billions of years in a century or less. These and other disturbances are resulting in newer diseases and global climate changes, like desertification and impact on eco-systems.

When the natural interconnectedness is disturbed, gaps are created, which lead to changes in evolution and new diseases and the danger is we may not be able to cope with them. Recent cases of bird flu and swine flu are a result of how we produce food. When chicken and pigs are kept cooped up in enclosures where they can barely move, bacteria and viruses multiply rapidly and new strains of viruses evolve quickly. When the natural food of cows was changed and they were fed liquidised remains from meat factories, the virus jumped species and mad cow disease was let loose.

The nature of food and its properties itself is changing. Cows given hormones to fatten and produce more milk are passing them on to humans with consequent problems, especially for the babies and the young. When chemical fertilisers are used, the properties of food changes and new allergies can emerge or resistance to diseases may alter. Genetically Modified (GM) foods are now fast entering the food chains but their impact on human health is not yet understood. A GM brinjal, which is toxic to pests, may also be toxic to humans or a GM cotton variety that is pest-resistant may also lead to allergies when cloth made from it is worn. These require long-term testing. Why

the hurry to introduce these technologies so quickly? They could be more fully tested over a few decades and if found suitable then introduced. Life on this planet can potentially last a long time and a few decades is nothing compared to that even if it matters much to a generation.

Genetic engineering / modifications also hold promise of new kinds of cures for difficult diseases. However, it is moving evolution into uncharted waters and it is not clear what effect all this would have and whether we can regain control over the genei we are letting out of the bottle. For instance, it could result in new diseases or reduction in immunity to existing diseases. The reason is that the complexity of nature and human body is so great that we understand it only partly. The fine balance that has been achieved between nature and humans over a few billion years of evolution is being disturbed in decades so that chances of accidents are increasing. It is apt to say we are playing with fire with few precautions.

The new technologies are enabling society to exploit natural resources on a vast scale; in certain cases we are using a significant per cent of the known available resources so that these resources are in danger of running out in the immediate foreseeable future. While technology may advance and replace these resources with alternative ones, this can become an unending race, increasing costs all around. However, a more damaging aspect of all this is that in mining resources or cutting forests and leading to the washing away of top soil, the environment is changing in a basic sense. Many of the materials that were toxic (like radioactive materials) to life were buried deep or were present in remote and inaccessible areas and materials useful to life were easily accessible. Now, we have brought the toxic materials close to human habitation while we are losing the useful ones to the oceans or blowing them into the air, etc. Many of the toxic materials did not occur naturally, but human kind has created them through various industrial production processes.

Under the onslaught of the modern day technological developments the poor often begin to use even the traditional technologies differently than the way they had learnt them and, thereby, cause greater pollution and move towards non-sustainable lifestyles. For instance, in many Indian villages, the traditional water harvesting techniques — baolis, ponds and wells — have languished because the British took over control of many of these systems from local bodies and passed it on to the engineers. Thus, water bodies delinked from local control became alienated from communities and waste increased. It was someone else's responsibility to supply water. Conservation became a thing of the past. Pollution of water increased since it was not one's responsibility. Overdrawing of water from underground sources led to increased leaching of toxic materials into underground aquifers. In Bengal, arsenic poisoning is widespread in some districts. Further, presently, control

over water is passing into the hands of the corporate sector with privatisation. With profit motive added to what is essentially a community resource, crisis and protest is increasing, as witnessed in the case of soft drinks companies over-exploiting this resource or salinity increasing due to indiscriminate use of water in fields.

Often under pressure of modern lifestyles, traditional solutions become unviable — for instance, reducing stress by relaxing is not feasible and one has to pop pills to get instant relief and keep going. Even the poor go to the doctors and ask for pills and injections so as to get quick relief so that they do not miss their daily wages. This is causing lifestyle diseases to appear, which requires daily consumption of drugs, which have their own side-effects and result in the rise of more diseases — a vicious cycle.

While technology, no doubt, has the potential to solve human problems and even eliminate poverty, its indiscriminate use is creating huge social and environmental problems. The resulting costs are unevenly borne by the poor and that has the potential of aggravating poverty.

5.5 Development, Globalisation and Pollution

The above discussion points to the usually asked question whether there is a contradiction between modern development and environment. If there is a dichotomy, then developing countries would have to accept a deteriorating environment. Its corollary would be continuing poverty as a necessary cost. This is convenient for the elite who do not wish to sacrifice and want the poor to accept the costs, much as the advanced nations have exploited the poorer ones.

It is argued that over time, development would eliminate poverty through trickle down and till then pollution has to be accepted (Kuznet's curve). However, there is no certainty that this would be temporary with the growing environmental cost imposed on society and especially on the poor. What may have happened in the case of the currently advanced economies may not happen to the developing world since the conditions are historically different. If the shape of the Kuznet's curve is a result of the poor having no option but to accept living in a degraded environment, then it is not clear that there would be any transition to a cleaner environment for the poorer nations. What is certainly possible is that the poorer nations develop enclaves of development, which are also clean but surrounded by poor areas that are also highly polluted (As in SEZs or gated colonies). Only the nature of poverty would change.

Here, it is not being argued that the poor do not pollute (they do) but often they do so for the sake of the consumption of the rich and their rapacious lifestyles, while they themselves suffer from pollution. They also pollute

since they are skilled in traditional technologies and lifestyles, which are being displaced by modern technologies with which they are not familiar, and because of their low literacy they cannot learn about them or adapt to them. Above all, it is pointed out that they are not the major source of pollution (definitely not in per capita consumption terms) but are the victims of the worst pollution due to the intensive use of natural resources for the consumption of the well-off and the inability of the modern technology to evolve holistic solutions. Consequently, poverty is becoming even starker, both because of increasing commercialisation as well as new forms of health problems, which the traditional health-care system is unable to cope with and they are forced to go for unaffordable expensive treatment resulting in growing and unsustainable debt.

In brief, it is being pointed out here that for a poor country, like India, where the poor lack the modern skills (even if they are rich in traditional skills) pursuing the path of Western modernity is resulting in entrenched poverty over long periods. Environmental degradation is leading to changes in the definition of poverty even as material prosperity increases. The conclusion from the above is that the poor no doubt pollute but little because of their low per capita consumption. However, the pollution they cause is due to desperation, lack of access to technology, coercion and corruption. The well-off sections with their consumerism create huge amounts of pollution both directly and indirectly and this is a result of choice (unlike the poor) and can be curtailed.

6. Conclusion: Poverty, Inequality, Marginalisation and Disruption of Society

Societies, rich or poor, have poverty, inequality and marginalisation of sections, like women. Thus, it is not that India or the developing world is unique in facing these problems. However, the argument presented above is that these problems manifest themselves in a more acute form in societies that are disrupted and countries that are poor. Further, the ability of the marginalised to deal with their problems, like poverty and pollution, have an inverse relationship with the extent of social disruption they historically suffered.

S. E. Asia, Korea and China have been able to substantially tackle formal poverty through rapid growth over long periods of time. Each of them has followed a different historical path. China after terrible suffering went through a revolution and transformation in 1949. One thing common amongst them is that they have had a weak democracy and they received strong support from the West to stem the rising tide of communism. They have moved substantially away from their traditions and have also suffered

substantial environmental damage. What kind of progress they will continue to have remains to be seen. Most countries of Africa, S. Asia and Latin America that have lagged behind have been less successful in tackling even formal poverty. These sets of countries, the successful and the unsuccessful ones, have undergone big social changes. Consequently, the nature of poverty for each of these countries has also changed, so that its removal has been like chasing a moving target.

It is apparent that wherever exploitation exists in any form, these problems manifest themselves. They have existed in slave societies, under feudalism and under capitalism. Each of these social systems has its own ways of coexisting with these problems and treating them as non-problems. Justifications are constructed so that the marginals, like slaves in a slave society, accept their situation and remain a part of the system. These systems presented themselves as the "natural way" of life or as the one "ordained by a higher power" (like feudal lords presenting themselves as blue blooded) and, therefore, action to change them was not required. Under capitalism it is said that equity is a concern but it is not achievable. In this framework, equality amongst individuals is not necessarily desirable since inequality is a "natural state of existence". Poverty is seen to be a result of one's own inability or incapacity and it is argued that society can do little about it. Marginalisation is also linked to one's endowments and is seen to be a natural state of affairs. Attitudes formed by these ideas lend stability to capitalism by making it acceptable.

The formerly colonised societies that were disrupted were (and are) at the tail end of the global economic processes. During the colonial rule, the preexisting poverty, inequality and marginalisation got aggravated since colonisation was for exploitation by the colonial powers. Independence should have meant big changes in perceptions. However, the biggest disruption during colonial rule was the creation of an intermediary group of local elites between the people and the colonial power who were delinked from the common people. This group saw the colonial power as a role model to be copied — it became enamoured by Western modernity. This group, delinked from the majority, developed a narrow perspective to serve its own interest. So, after independence when they became the new ruling class, rather than initiate the task of nation-building afresh, they largely sought to reproduce with some modifications the practices of the colonial masters. Thus, marginalisation, poverty and inequality became the residual issues in comparison to achieving Western modernity. Hence, they readily accepted trickle down, elitist education, urbanisation and so on. The result has been that modernity has remained formal and technological with little social content.

There is much propagandising / posturing about poverty removal but change has been limited. For instance, investment is targeted at introducing modern technology while employment generation is a residual. In spite of

the grinding poverty continuing, claims are made of reduction in poverty based on an arbitrary poverty line, defining extreme poverty and even this claim is suspect. Poverty continues and poverty removal has become a technical fix for projecting a positive image of the government in power.

Persistence of poverty in India is shown to be systemic. Above all, it is linked to the attitude of the ruling elite which has been self serving and the consequent politics that it has generated to maintain its privileges. This has thrown up policies like on investment, taxation, subsidies, education, employment, technology, pollution, production and finance which lead to poverty becoming endemic in society. Education gives upward mobility up to a point and is essential but the system in India marginalises education for the marginalised sections — Dalits, women, Muslims, and so on. Lack of proper education makes it difficult to get jobs that pay well to enable the family to climb out of poverty — the problem is often aggravated by prejudices against the marginalised. Asset ownership by these groups is minimal so that they lack capital and have little control over production or its distribution and this becomes a cause of their marginalisation.

The politics of the country has become a handmaiden of the rich and the powerful with seats in the Parliament going to the highest bidder and not to genuine representatives of the people. What chance do the poor have to be represented by their so-called representatives who fly around in designer clothes? The rulers have replaced the colonisers in taking capital out of the country by resorting to flight of capital. This aggravates the shortage of capital for the nation's development and makes poverty removal that much more difficult. Yet, democracy remains the only hope for the poor so that their voice is heard.

Faith in society is declining both amongst the rulers, who are grabbing resources for self and amongst the marginalised because they are the losers and have little stake in the system. The latter are getting alienated from society and are turning to various forms of protest and violence in response to the direct or indirect violence perpetrated on them by the ruling elite. Often, they are rejecting in their own simplistic forms the ruling capitalist ideology and turning to anarchism, right-wing fundamentalism, religious fundamentalism and Maoism.

Victims of the largest industrial disaster in the world, Bhopal Gas Leak, have been pleading for the last 25 years for relief without getting much. The end to injustice for the poor is not in sight. The government and the courts have failed them. Similarly, in the case of the Narmada movement, the fight of the locals against displacement has been stonewalled by the courts and the government. Promises made have not been kept and the courts have changed their stance from time to time.

Poverty impacts society's notion of social justice. The decline of the judiciary with long delays in cases and its conservative stance after 1991 have accelerated this trend. The poor anyway have little access to justice since courts are not only clogged with cases but law is opaque for them and fighting a case is costly, which the poor can ill-afford.

Granting tax concessions (called tax expenditures) to the corporate sector while grudging subsidies to the poor is another example of injustice. The former is considered good for the economy because it is supposed to boost investments while the latter is considered to be harmful because it is termed as waste. The fact is that the former is resulting in greater concentration of resources in the hands of the corporate sector, while the latter leads to better income distribution. What is forgotten is that tax concessions are not a sure way of boosting demand while expenditures on the poor are a sure way of boosting demand in the economy, which would encourage investment. This is another indication of a policy bias in favour of the well-off even if the alternative is better for society as a whole.

Thus, it is argued that there are societal processes that create a socially defined poverty and they help sustain / perpetuate it so that poverty becomes a part of the social dynamics and it gets entrenched. The form of poverty has been changing so that poverty removal has become like chasing a moving target but the government treats it as a fixed target to justify its policies. It is not that advanced societies do not have poverty or that capitalism does not create inequality but in the case of the disrupted societies the problem becomes even more acute due to the loss of dynamism. Even with political independence, social dynamism is only partly restored because it is warped by the continuing linkages to the former colonial power and its dynamics.

Poverty is a blot on modernity and its claim of being superior, so it is a dirty word for the modernisers. The way women and workers are presented in media reflects their status in society. The commoditisation of the woman's body has lowered their status and the workers are presented as lesser beings. Poverty arouses deep feelings in most people and they deal with it in myriad ways. Many suspend judgement and look the other way. Social structures are created to justify such actions. Literature, music, theatre and arts have played an important role in changing our traditional sensibilities. In the current context this is all the more important.

This chapter points out that poverty is the poverty of mind and reflects the societal processes, like, the development path chosen. Technical fixes by the government are inadequate to deal with the task. The continuing disruption of the social processes since the colonial period underlie this poverty of the mind, which afflicts both the elite ruling class and the poor.

Chapter XI

Key Aspects of the Disruption of Social Dynamics: Inadequacies in Knowledge Generation

1. Introduction

Education is the key building block for a country. It is crucial for nation-building because it affects everything else more critically than any other factor. It determines both the current and the future shape of society. It helps meet the challenges confronting the nation by both enabling anticipation of the challenges and working out ways of meeting them. In today's rapidly globalising world, challenges are complex, emerge rapidly and often give little time to tackle them. Only a nation that can anticipate these challenges can face them effectively. For instance, recently, because the global economic crisis was not anticipated by the rulers in the advanced countries (Chapter I, Section 1), preparations could not be made to tackle it and that almost led to a global depression. Further, the nation which leads in technology becomes the world leader not only in production but also politically and socially. For leadership in technology over the long run, advances in pure sciences are required. However, as discussed later in Section 7.5, rapid technological change itself results in new social challenges so that advances in understanding of social sciences are important to deal with them. In brief, the challenge of globalisation for any large nation like India is rapid all-round knowledge generation, which can impart dynamism in all fields.

No large nation can be a copy of another because the challenges it confronts are specific to it (*see* Chapter V, Section 1.3.1), so, it needs an independent development path, which is only possible through a dynamic education system which generates new knowledge. As such, education is not just about literacy but also about its application and use for nation-building. Beyond literacy, higher education is required to not only pass on the existing knowledge to the next generation but also to generate new knowledge (in a variety of fields) given the complex world that we are in. Thus, the content of education is critical. For instance, education can be used to propagate dependent development as has happened in India since the colonial times.

Consider, Kerala and Cuba that have almost full literacy, yet, they have not displayed adequate dynamism to escape / resolve their economic and social problems. In contrast, the Scandinavian countries are dynamic due to their focus on higher education and high quality education at all levels.

Kerala, has few internationally renowned institutions of higher learning and a large number of its young have migrated to work elsewhere. This is due to inadequacy in higher learning. Further, since it is a part of the larger Indian economy, investment leaks out to other parts of the country so that there is inadequate job creation. In the case of Cuba, it is too small to sustain the division of labour needed by a modern economy. Perhaps for this reason, it has not been able to sustain higher education at the cutting edge in all the fields necessary and has had to depend on others, more specifically, the Soviets before their collapse. Further, it was a victim of global geo-politics with the USA imposing sanctions and isolating it from its neighbours. So, it had to defend itself and that drew away the meagre resources from development and also led to dependent development based on Soviet support. Such dependence truncates independence.

In contrast, large nations, like the former Soviet Union and China could develop in relative isolation (behind the iron curtain and the bamboo curtain) but that is difficult for a small economy. Development in both Kerala and Cuba has been significant given the problems they have been confronted with but it has not been adequate to make them leaders since given their constraints, they could neither forge an independent path nor acquire the edge that higher education could have given them.

In India, the challenges of teaching and learning, whether in social sciences, sciences, professional courses, etc. are similar. Hence, education has to be looked at in totality and not piecemeal as is often the case. Possibly, problems in the sciences and in professional courses are less acute since the better students have been attracted to them over long periods but they also confront the general problems the education system suffers from in India. This is not to argue that across disciplines there are no specific problems or that the degree of problems faced does not differ.

Lack of reliable data confronts any analysis of the Indian education system. Reports abound of schools existing on paper, teaching not taking place in classrooms and mathematical and writing skills being way behind the class level in which the students study (GOI, 2012). Thus, the data on literacy and enrollment may be faulty and may lead to a false sense of achievement and breed complacency.

Educational attainments are differentiated regionally and across groups and are linked with poverty and backwardness of the regions as well as the state of the marginalised and the deprived groups. As argued in Chapter X,

access to education is a powerful force to escape poverty and conversely the lack of it keeps people in poverty.

1.1 Higher and Other Levels of Education: Is There a Dichotomy?

A false dichotomy is often posited between the three levels of education — primary, secondary and higher education. It is suggested that primary education is more desirable than say, higher education, so more resources should be allotted to the former than the latter. But this ignores the strong complementarities between the two. If one lags behind, so does the other. For good teaching at the primary level there has to be competent training of the teachers at the higher levels, and for success at the higher levels good education is needed at the prior stages.

During colonial rule, a way to curb growth of higher education in India was to posit the importance of primary education. The Congress leadership realised this and ". . . did not want the claims of higher education to be subordinated to those of primary education. It wanted the government to patronise both, equally and effectively." (Kumar, 2006: 209).

Currently, it is the self-centred attitude of those acquiring higher education and earning high salaries but unconcerned with the rest or who migrate after getting expensive education that strengthens the argument for not subsidising higher education. The best tend to go abroad or ask for high salaries and show little desire to sacrifice for those who sacrificed to make their cheap education possible (*see* Chapter X, Section 4.2). However, this is a short-sighted vision. The problem is with what is taught to students in higher education — the best of which is taught in the advanced countries so the better students tend to go there. Further, the market signals are that the foreign trained student gets better jobs, so good students go abroad. Finally, success is measured in terms of incomes, so the better students gravitate to higher paying jobs and ask for more.

In effect, students are hardly to blame since they follow rationally what the system dictates to them. The solution is to change the current flawed structures. Unfortunately, the current policy initiatives are not moving the structures in a more desirable direction but uncritically giving in to the current short termist thinking, which can only create more problems. The current context needs to be understood in its historical setting to make sense of it but for that the policy maker has little time.

1.2 Foreign Educational Institutions in India: Likely Impact

Since 1991, privatisation of education is taking place rapidly at all levels. Global universities are being invited in the name of imparting dynamism to

the Indian education system. It is as if education is neutral with little national specificity linked to the stage of economic development, history, culture, language, geography, etc. It is argued that large numbers of the best students go abroad for higher education, so, if the global best universities come to India then these students would not need to go abroad and can study in India itself at a much lower cost. What impact these foreign universities may have on India's existing universities or on the education system or the content of our education is not considered. For instance, if the best faculty (which is in short supply) gets recruited by these institutions then there would be a segregation between the good education for the elite in these institutions and poor quality education for the rest who would attend the indigenous public institutions with faculty of indifferent quality. There would be other even more subtle influences as the content of education gets changed and we need to be aware of these consequences.

Gandhi suggested that Indians studying in the then prevailing institutions of higher education, patterned after the Western education, were getting alienated from society since that education was alien to their own context and was taught in an alien language. Even now a large number of our students in higher education studying in English do not follow the language well enough to grasp the concepts clearly and get alienated. They become indifferent to their studies and obtain degrees of little value. Gandhi suggested the need for praxis to tackle alienation of the students, and this has to be nation specific. What may work in an advanced nation may not work in a developing country where a different praxis would apply. In this sense, education cannot be considered to be neutral. While sciences may have a certain universality this is not so for technology, culture, social sciences, literature, etc. Even teaching pure sciences in India also poses difficulties under the present circumstances.

Global universities and colleges may also have an agenda of their own based on their own national interest. They may be interested in training even more cheaply (compared to when they train them in their present campuses) skilled workers for their economies and may propagate ideas central to their national needs, including in the social and political realms. India has gone through this during the colonial rule when the British set up a few universities and colleges in India to serve the long-term needs of their Raj, such as propagating English and Western thought to the neglect of Indian languages and Indian thought. They successfully kept teaching of science and technology to a minimum (*see* Chapter II, Section 3.5). Kumar (2006) points to this:

> " ' . . . major proposal for a big investment in scientific research came in 1898 from J.N. Tata, a leading industrialist of Bombay.'; '. . . ₹ 30 lakh was to be applied to the founding and maintenance of a research institute,

> . . . '; 'He wanted the government to grant a similar amount to ensure the success and smooth functioning of the proposed institute.' (p. 202). 'This put the government in a dilemma. In public it appreciated Tata's generosity, but in private officials doubted both the necessity and result of so much expenditure on research in a colony.' (pp. 202-3). Further, '. . . a member of the Viceroy's Council wrote: 'We are in no way bound to subsidise the Tata scheme. The precedent is a dangerous one.' "
>
> " . . . Curzon now tried to clip the proposals and asked for the scheme to 'be reduced to more modest dimensions'. Finally he agreed to grant pound 2000 a year but not without his usual impetuosity: 'Tata entirely owes it to me that he gets anything . . . .' Tata died in 1904 a partly disheartened man." (p. 204)

The colonial rulers pushed their agenda in social sciences by arguing that the knowledge that existed in India was little compared to what the West had to offer (*see* Ghosh, 1995). The nationalists had to set up their own universities, such as BHU or AMU. While it is true that the foreign educational institutions coming to India in the present context may play a different role, what is being suggested here is that they will pose new and unanticipated challenges in the long run and which are not being thought through today by the ruling elite blinded by the desire to rapidly modernise and join the international elite.

2. Historical Context of Post-Independence Developments

Table 1.1 shows that up to the time of independence, the educational attainments in India were poor and Table 9.1 shows that in comparison to Britain, it was woefully inadequate. The educational infrastructure, such as the number of schools, colleges, institutions teaching engineering and medicine, was inadequate. There was widespread illiteracy and lack of professional, scientific and technological personnel. This deep-seated disruption in society was the underlying cause of the country's underdevelopment in 1947 and the nation is still struggling with it in ever since. What was the situation in the pre-British period?

Dharampal (2000) has mentioned that India displayed some dynamism in science and technology up to about 1750, but by the end of the eighteenth century this had disappeared. India had few institutions of higher learning left and this necessitated the formulation of an education policy by the colonial rulers. They had their own needs and philosophy of education, which they wished to propagate. It fell on Lord Macaulay to formulate the education policy in the 1830s. He felt that India had little knowledge and that it had to depend on the British. He laid the ground for the imposition of not

only English but the domination of Western thought in India. The system of higher education set up was designed to produce clerks and not thinkers. No wonder, good Indian students have mostly preferred civil services to research. In this context, Kumar (2006) points out:

> ". . . Colonel De Pree, Surveyor-General, told the Public Service Commission of 1891: 'It is suicidal for the Europeans to admit that natives can do any one thing better than themselves. They should claim to be superior in everything, and only allow a native to take a secondary or subordinate part.' " (p. 222)

> "J. C. Bose's appointment in Presidency College was strongly objected to by its principal (Tawaney) and the DPI of Bengal (A. Croft). As Bose recalled later: 'Sir Croft told me frankly that an Indian was temperamentally unfit to teach the exact method of modern science' — Quoted from *The Statesman,* 20 January 1925)." (p. 218)

> "When Bose joined the service, an Indian professor's income, even in the Imperial Service was two-thirds that of a European's. Bose found that even this two-thirds pay was to be further reduced by one-half, since his appointment was only that of an officiating person. In other words, he was to get one-third of the pay normally attached to the office." (p. 218)

> " . . . till the Royal Society accorded Bose recognition, the college authorities and the government refused him any research facilities and considered his work as being purely private." (pp. 219-220)

> " On 27 December 1887, Lord Raleigh visited the Presidency College and Bose took him to the laboratory. The same day, F. Mour, the officiating principal, issued a show cause notice, asking Bose 'by what authority have you received outsiders into the laboratory, and if the visit was made by previous appointment with you, why did you not communicate Lord Raleigh's intention and the hour arranged for his visit to me." (p. 220)

> " . . . The Indians continued to make efforts which did take a new turn during J. C. Bose's protracted struggle against such a wide disparity in pay scales. J. C. Bose was allowed European scales of pay in 1903 only after gaining a reputation worldwide and a CIE. During the 1890s, the average remuneration worked out at 667 for each European and 36 for each Indian." (p. 223)

Emphasis was laid on teaching and not on research. The use of a foreign language meant that few could master it to understand the cutting edge of knowledge and be conversant enough to further advance it. This paved the way for the emergence of the "derived intellectuals" who recycled Western

knowledge in India. They became the Indian interpreters of Western thought in the Indian context. For most Indian students, learning has been difficult and, therefore, a mechanical exercise divorced from their own context and alien to their culture.

Gandhi understood that mere learning and education are inadequate. To him the content of education was important for the nation and its future. So, Gandhi suggested the importance of praxis under his "nai taleem" (Bhattacharya, 2004). The national movement hardly favoured it and set for itself the goal of copying the Western system of education. Little thought was given to devising a more indigenous form of teaching and learning based on our own needs. This paved the path for the West to become the ideal to be copied and the yardstick of success. Along with this came other influences, like consumerism, "trickle down" and "growth mania" and as a corollary of these India allowed the marginalisation of the marginals and treated damage to the environment as secondary.

Education sets the framework for thinking — not that this limitation cannot be overcome but the lack of it makes the task more difficult. When one has not yet embarked on a path, it is easy to visualise a different one but once on it, change becomes more difficult because of the social conditioning that goes with a path. In this context, consider Mirza Ghalib's daily diary from 11 May, 1857 to 31 July, 1857, published as *Dastamboo* (Hasan, 1989). He was abusively critical of the freedom fighters fighting the colonial masters in 1857. He argued he had partaken of the salt of the British and had to be loyal to them. He believed that the rulers were destined to rule and people should not come in their way. He writes, how great his loss was that he could not obtain good quality spirits to drink in the evenings.

How could a man who was otherwise so conscious of people's suffering and the finer points of life be oblivious to the link of that suffering of his time to the colonial rule? This could only be a result of the wider frame of mind he was in due to the internalisation of ideas of loyalty to the rulers. Often, the framework one is in (and in this case the colonial feudal mindset) comes in the way of one perceiving a wider reality and a different picture of life. So, it should not surprise us, even if it appears unbelievable that one of the greatest poets, Ghalib was no exception. Other mere mortals stand little chance of overcoming the limitations of the framework of thought.

The British, for their own needs, set up the Presidency College, Calcutta and CMS, Kottayam in 1817. Perhaps, the most important event was Macaulay's Minutes on Education in 1835, which laid the ground for the British India Education Policy under which the universities were set up. In 1857, Calcutta, Madras and Bombay universities were set up. Later in 1887, Allahabad University was set up in the North, initially as an affiliating university but from 1905 it started teaching. So, there was a university in each of the

four corners of the country and these became the agencies for the spread of western education in the country. Under the Act of 1935, the education sector came under the purview of the Central Government, and over time, more institutions were set up but at the time of independence, there were few institutions of higher learning (and especially technical institutions) compared to the size of the population of the country.

The nationalists realised that independence was not just a political act in its narrow sense but also it was a fight for capturing the mind and the imagination of the people of the nation. This required an independent thought pattern based on indigenous ideas so they set up their own Universities and Colleges, like Aligarh Muslim University in 1920 and Banaras Hindu University in 1916. Kumar (2006) points to the nationalist effort:

> " 'The ideas of 1905' symbolised the determination of the people in two fields: (1) the promotion of education along 'national lines and under national control' with special reference to the exact sciences and technology, and (2) the industrialisation of the country and advancement of materialism." (p. 210)

> "Money was collected to send deserving students abroad to acquire scientific skills. Japan had come up and became a symbol of independent development. However, there was a division. Two societies came up on the same day. The officials were happy to see this division because it enabled the government to go ahead with its own views." (pp. 210-212)

The nationalist spirit led to the rise of great scientists by the 1920s and the 1930s, like S. Ramanujan (1887- 1920), S. N. Bose (1894 – 1974), C. V. Raman (1888 – 1970) and M. N. Saha (1893 – 1955). S. Chandrashekhar, the astrophysicist and the engineer, M. Visvesvaraya (1860 – 1962) can also be added to this list.

One of the key disruptions in the Indian universities and colleges was the transposition of the white and non-white distinction that the rulers made with regard to teachers and who could become a Professor to the post-independence caste-based distinction — for instance, in North India, the appointments based on whether one was a Brahmin or a Kayastha or a Baniya. Cliques developed in academia that promoted their group's interest and through that their own — in the process merit got largely marginalised. Partly, this is the grouse of the SC / STs and the Backward Castes that they have been deliberately kept out and it is only through reservations that they will get some semblance of parity. This situation prevails to this day with connections at the right places often being more important to get academic jobs.

2.1 Language of Instruction and Disruption: English as Medium of Instruction

Language of instruction is important at all levels of education. In the early years, if there are language difficulties, learning deficiencies remain for a long time. So, it is believed that the mother tongue is the best for children (*see* Mohanty, *et al.,* 2009). Other languages require an extra effort, which the child can put into other kinds of learning. Further, if the cultural context of the language is different, it is not easy to understand it in one's own context. While some are naturally multi-lingual and face no difficulty in learning a new language, that is not true for all. Anything that increases the difficulty of learning becomes a hindrance to children in their learning process. Their command over concepts weakens as they become more complex in higher classes. It then becomes difficult to enjoy and learn. Since school education is the base on which higher learning takes place, a child's weakness at an earlier stage becomes more pronounced.

The difficulty is compounded if the teachers are themselves deficient in learning because of their own weakness in language since they are also the product of the same system. Many teachers in India have poor capacity to explain to children because of lack of an independent understanding of the subject. They largely emphasise rote learning based on dictated class notes which are cut and pasted from various sources. They often lack self confidence and, therefore, do not encourage questioning or innovation and think of bright children who question them as trouble makers. Teaching, examination and curriculum are largely skewed against innovation and excitement of learning and in favour of rote learning.

At the research level, these deficiencies become crucial handicaps. One has to be at the cutting edge of knowledge to further advance it. Students or teachers who hardly understand the cutting edge of present day knowledge, since their concepts are weak, can not be expected to advance it further. A language carries with it its own thought patterns and cultural context and in the case of social sciences or literature this can be a handicap for the researcher who is analysing the problems arising from a different cultural or national context. For instance, the transition (going from feudalism to capitalism) debate in the West was crucial to understand social dynamics and development path. Many of the best Indian social scientists also thought it to be so since they were trained in the Western tradition but the question of its relevance in the Indian context was hardly raised because it was assumed to be equally valid here. As discussed in the Preface and Chapter V, Section 1.3.1, growth paths can hardly be copied by countries given their different stages of development and so on.

It was assumed by most development economists that the path followed by the advanced capitalist economies was the only path available for development. So, the discussion has mostly been on how best to adopt it without questioning its basic applicability to the context of the developing countries. One can also think of the fundamental impact of the all-pervasive black economy (*see* Chapter VIII) but a vast majority of the Indian economists do not take it into account in their analysis. Ignoring these realities while analysing the Indian economy is feasible only for those who need not look at the reality since they only borrow theories and reproduce them in the Indian context — right or wrong? In brief, whole frameworks are internalised with little questioning because the language of instruction and the available literature in that language carry an entire context with them, whether relevant to other cultures and languages or not.

Why has English become so dominant in India so rapidly and especially after independence even though it is a source of weakness for the nation? It is argued that it is the language of international communication and makes a large volume of literature available to its students. Thus, getting international jobs and reaching the cutting edge of current knowledge become easier. However, there is a stronger reason, namely the roots go back to the colonial period. Most desirable jobs (like, in the bureaucracy, engineering, military, medicine and management) in the economy required knowledge of English. Those who knew it, were preferred. So, anyone who wished to do well in life during the colonial rule learnt English. This trend has only accelerated in independent India because of lack of clarity in the leadership and the confusion regarding the language question.

That India is a multi-cultural and multi-lingual society is a given. So, emphasis should have been placed on the development of local languages and developing one of the Indian languages as a link language. The policy of making literature available in different Indian languages should have been given high priority. The Official Languages Department of the Government of India, which should have focused on evolving the language formula and strengthening Indian languages is considered a marginal department. It is often headed by someone who is on punishment posting so that she / he is not motivated to give their best.

In the universities and colleges, in recruitment and promotions, preference is given to those with foreign degrees and / or have served abroad (even if they go for a post-doctoral fellowship while holding a faculty position in India) or to those who publish in minor foreign journals or get invited to attend even meaningless conferences abroad. Most of this external orientation is linked to the English speaking world for historical reasons. Many try to derive advantage from mentioning their trips to foreign universities, etc. It

hardly occurs to the Indian academics to give priority to the Indian trained students working within the country, even if those who are foreign-trained are considered to be better. Because, to do good work in India is far more difficult than doing it in the West given the facilities there.

All this puts pressure on Indian academics to cultivate and network with foreign academics, very often, from a subordinate position (more so because Indians expect funding). To make themselves acceptable to foreigners, they adopt the framework of those they are seeking favours from. For instance, a consultancy with the World Bank requires one to adopt the neo-classical framework used by its analysts. One can ask, how many studies initiated by the bank have presented findings contrary to the bank's policies? In brief, the incentive systems that have developed since the colonial period have led Indians to adopt English language and even more importantly, the frameworks that come with it and then to further advance these frameworks through their own work to the detriment of the national interest.

Since we have paid inadequate attention to our languages, internationally also they do not receive the attention they deserved. The UN recognises six official languages — English, Spanish, Chinese, Arabic, French and German. The number of people declaring their mother tongue as Hindi was 422 million in the 2001 census, a number much larger than that of the French and German but Hindi is not recognised by the UN as an official language. The number of those who understand Hindi is even larger but that is another matter.

2.2 Lack of Investment and Underdevelopment

A key reason for our current backwardness is the setback that Indian industry and agriculture received during the colonial period. With surpluses siphoned out of the economy and deindustrialisation (*see* Chapter II) both industry and agriculture lost their dynamism and became backward. There was little R&D to improve practices. These are the practical sources of advancement in knowledge. According to the theory of "learning by doing" (Arrow 1962) people learn in the process of production and investment, so, clearly where these two activities receive a setback, technical change, the driver of new knowledge, slows down. When generation of new knowledge is impeded, education as a whole also lags behind.

R&D is the most risky investment since it may or may not yield returns. Therefore, it is usually undertaken if the risk is covered or the returns are enough to cover the risk. Often new technologies have emerged with state support, so that the risk to the private sector is minimised. Further, if the size of capital is large then the risk-taking capacity is high, but for small producers it is difficult to take the risk. Further, in the modern period, the scale of

investment in modern technologies is high, so that only the big entities and state can undertake it. These factors have worked against R&D in the colonial period and subsequently.

The colonial state in India was neither interested in mitigating risk nor in carrying out any major research and the size of private capital was too small to take on the risk. The state was largely content to borrow technology from abroad and Indian industry was also forced to do the same. Finally, the institutions of higher learning that could have undertaken research activities were deliberately not created. Thus, it is the totality of the factors that set back higher learning for two centuries and the nation has not been able to overcome this deficiency, not only because of a lack of resources but also because of the lack of a perspective and understanding of disruption in society. The situation has been aggravated by the process of one-way globalisation based on marketisation that started in 1991. Between 1947 and 1991, at least some attempts were made towards resisting Western domination, providing an intellectual critique and talking of alternatives. The various commissions set up to study the problems of higher education in India suggested changes (discussed in the next sections) and some teacher's groups suggested basic changes (for instance, JNUTA, 1997). In the next two sections the two broad periods divided by 1991 are discussed separately.

3. Major Policy Changes

3.1 Developments in the Field of Education between 1947 and 1991

During the struggle for independence the nationalists understood the importance of education for eradicating the various ills of society — poverty, ill health, ignorance and illiteracy. Further, it was needed to compete with the West on their terms. The nationalists also realised that the private sector could not play the role of providing the infrastructure needed for India's development and especially for the poor in society. For these reasons, it was decided that in independent India, the state would have to play a large role in building the education infrastructure and promoting learning — at a low cost to the individual.

Unfortunately, rather than base education on independent indigenous considerations, the Western model was adopted due to the biases acquired by the ruling elite during the colonial times. The elite consisted of those who returned from the West with its degrees and / or thought patterns and believed that modernity was exclusively Western. Hence, the Western pattern of education, even though expensive, was adopted. Further, the still surviv-

ing rudimentary indigenous systems of learning were considered to be backward and incapable of dynamism and so had to be given up. As a corollary, independence of curricula, the use of local languages as medium of instruction and provision of cheap but high quality education to all, were not given the importance they deserved — a manifestation of the disruption in society.

Under the nationalist leadership, after 1947, there was a dramatic spread of education at all levels (*see* Tables 1.1 and 11.1-11.4). R&D received a fillip with the setting up of schools, laboratories, universities, IITs, and so on. India became relatively independent compared to most other developing countries. However, policy remained confused and went through repeated changes. This was the result of copying structures from outside that were not suited to India's own needs. Instead of resolving problems, the policies created fresh ones, which needed further correctives and more committees and more copying of structures from abroad. For instance, with each Pay Commission Report new guidelines were issued to upgrade standards in higher education but without improving matters they led to more hierarchies and greater bureaucratisation, which made the system more illiberal. The contradiction was that while trying to ape the West, India was moving away from what was needed and without realising it. This is a reflection of the loss of dynamism of Indian academia — it wants to copy without understanding the consequences of its actions.

Universities, where independent research is supposed to be carried out, have been undermined by the creation of a large number of well endowed institutes. This is another aspect of the feudal mould of our elite leadership. It does not like the relative autonomy of the universities and can control the institutes more easily. At the time of setting up of CSIR in the early 1950s, a British friend of Bhatnagar, the first head of this organisation, suggested that this would undermine the university system (*see* Chapter II). But Bhatnagar's argument was that the universities in India are not doing any original work so these institutes are needed to boost S&T.

This is a pointer to the disruption in our educational structures. Universities were implants of the British rulers who wanted to produce clerks and not thinkers so naturally the universities were not engaged in much research. After independence, rather than strengthening them it was decided to bypass them and set up institutes. There was an impatience to catch up but the game plan was flawed so India went for a poor copy of the West. Consequently, neither the universities nor the institutes achieved what they should have and India continues with its backwardness in spite of considerable expenditures.

Table 11.1

Students Enrollment in Higher Education in India (1950-1951 to 2002-2003)

Years	*Total Enrollment*	*Increase Over the Preceding Year*	*Percentage Increase*
1950-51	1,73,696	-	-
1951-52	1,98,543	24,847	14.3
1952-53	2,15,350	16,807	8.5
1953-54	2,37,688	22,338	10.4
1954-55	2,60,175	22,487	9.5
1955-56	2,94,815	34,640	13.3
1956-57	3,26,926	32,111	10.9
1957-58	3,71,446	44,520	13.6
1958-59	4,27,868	56,422	15.2
1959-60	4,81,534	53,666	12.5
1960-61	5,56,559	75,025	15.6
1961-62	6,63,661	1,07,102	19.2
1962-63	7,52,095	88,434	13.3
1963-64	8,42,110	90,015	12.0
1964-65	9,50,277	1,08,167	12.8
1965-66	10,66,884	1,16,607	12.3
1966-67	11,90,713	1,23,829	11.6
1967-68	13,70,261	1,79,548	15.1
1968-69	15,66,103	1,95,842	14.3
1969-70	17,92,780	2,26,677	14.5
1970-71	19,53,700	1,60,920	9.0
1971-72	20,65,041	1,11,341	5.7
1972-73	21,68,107	1,03,066	5.0
1973-74	22,34,385	66,278	3.1
1974-75	23,66,541	1,32,156	5.9
1975-76	24,26,109	59,568	2.5
1976-77	24,31,563	5,454	0.2
1977-78	25,64,972	1,33,409	5.5
1978-79	26,18,228	53,256	2.1
1979-80	26,48,579	30,351	1.2
1980-81	27,52,437	1,03,858	3.9
1981-82	29,52,066	1,99,629	7.3
1982-83	31,33,093	1,81,027	6.1
1983-84	33,07,649	1,74,556	5.6
1984-85	34,04,096	96,447	2.9

(Contd. . .)

Table 11.1 *(. . .contd)*

Years	*Total Enrollment*	*Increase Over the Preceding Year*	*Percentage Increase*
1985-86	36,05,029	2,00,933	5.9
1986-87	37,57,158	1,52,129	4.2
1987-88	40,20,159	2,63,001	7.0
1988-89	42,85,489	2,65,330	6.6
1989-90	46,02,680	3,17,191	7.4
1990-91	49,24,868	3,22,188	7.0
1991-92	52,65,886	3,41,018	6.9
1992-93	55,34,966	2,69,080	5.1
1993-94	58,17,249	2,82,283	5.1
1994-95	61,13,929	2,96,680	5.1
1995-96	65,74,005	4,60,076	7.5
1996-97	68,42,598	2,68,593	4.1
1997-98	72,60,418	4,17,820	6.1
1998-99	77,05,520	4,45,102	6.1
1999-00	80,50,607	3,45,087	4.5
2000-01	83,99,443	3,48,836	4.3
2001-02*	88,21,095	4,21,652	5.0
2002-03*	92,27,833	4,06,738	4.6

(Source: University Development in India, 1995-96 to 2000-01 & Annual Report 2002-2003, University Grants Commission.)

Notes: Figures Relating to Enrollment Exclude Pre-University/ Intermediate and Pre-Professional Levels.

* Provisional.

Table 11.2(a)

Literacy Rates in India (1951-2001)

Census Year	*Persons*	*Males*	*Females*	*Gap Male Female*
1951	18.33	27.16	8.66	18.30
1961	28.30	40.40	15.35	25.05
1971	34.45	45.96	21.97	23.98
1981	43.57	56.38	29.76	26.62
1991	52.21	64.13	39.29	24.84
2001	65.38	75.85	54.16	21.70
2004-05*	67.30	77.00	57.00	20.00

(Source: Census of India, Various issues.)

* NSS 61st Round

Table 11.2(b)

Literacy Amongst SC / ST and Others

	1961	*1971*	*1981*	*1991*
General (including SC&ST)	24.00	29.45	36.23	52.21
Non SC / ST Population	27.91	33.80	41.30	57.69
Scheduled Castes	10.27	14.67	21.38	37.41
Scheduled Tribes	08.54	11.29	16.35	29.60
Gap between SC and non SC / ST	17.64	19.13	19.92	20.28

(Source: GOI, 1994.)

Table 11.3

School Enrollment by Stages from 1950-51 to 2004-05

(In millions)

Year	*Primary (I-V)*			*Middle / Upper Primary (VI-VIII)*			*Sec. / Sr. Sec. / Inter / Pre Degree(IX-XII)*		
	Boys	*Girls*	*Total*	*Boys*	*Girls*	*Total*	*Boys*	*Girls*	*Total*
1950-51	13.8	5.4	19.2	2.6	0.5	3.1	1.3	0.2	1.5
1955-56	17.1	7.5	24.6	3.8	1.0	4.8	2.2	0.4	2.6
1960-61	23.6	11.4	35.0	5.1	1.6	6.7	2.7	0.7	3.4
1965-66	32.2	18.3	50.5	7.7	2.8	10.5	4.4	1.3	5.7
1970-71	35.7	21.3	57.0	9.4	3.9	13.3	5.7	1.9	7.6
1975-76	40.6	25.0	65.6	11.0	5.0	16.0	6.5	2.4	8.9
1980-81	45.3	28.5	73.8	13.9	6.8	20.7	7.6	3.4	11.0
1985-86	52.2	35.2	87.4	17.7	9.6	27.1	11.5	5.0	16.5
1990-91	57.0	40.4	97.4	21.5	12.5	34.0	12.8	6.3	19.1
1991-92	58.6	42.3	100.9	22.0	13.6	35.6	13.5	6.9	20.4
1992-93	57.9	41.7	99.6	21.2	12.9	34.1	13.6	6.9	20.5
1993-94	55.1	41.9	97.0	20.6	13.5	34.1	13.2	7.5	20.7
1994-95	60.0	45.1	105.1	22.1	14.3	36.4	14.2	7.9	22.1
1995-96	60.9	46.2	107.1	22.7	14.8	37.5	14.6	8.3	22.9
1996-97	61.4	46.8	108.2	22.9	15.2	38.1	15.3	8.7	24.0
1997-98	62.3	48.0	110.3	23.6	15.9	39.5	16.1	9.3	25.4
1998-99	62.7	49.0	111.7	23.9	16.5	40.4	16.6	10.1	26.7
1999-00*	64.1	49.5	113.6	25.1	17.0	42.1	17.2	11.0	28.2
2000-01*	64.0	49.8	113.8	25.3	17.5	42.8	16.9	10.7	27.6
2001-02*	63.6	50.3	113.9	26.1	18.7	44.8	18.4	12.1	30.5
2002-03*	65.1	57.3	122.4	26.3	20.6	46.9	19.5	13.7	33.2
2003-04*	68.4	59.9	128.3	27.3	21.5	48.7	20.6	14.4	35.0
2004-05*	69.7	61.1	130.8	28.5	22.7	51.2	21.7	15.4	37.1

(Source: GOI, 2005.)

Note: *Provisional

Table 11.4

Student Enrollment by Income Class, Gender, Rural and Urban

Gross Enrollment Ratio (Student enrolled as a percentage of 18-23 year group) in 2004-05		*Disparities in Higher Education Enrollment (Recent Years)*	
India	11.8%	Enrollment of women in total enrollment	10% in 1950-51 40% at present
India: Target at the end of 11th Five Year Plan	15%	Gender gap	Female: 11% Male: 15.25
Lower Middle Income Group (average)	22%	Rural Urban disparities	Rural poor: 1.3 Urban poor: 5.51 Rural non-poor: 7.12 Urban non-poor: 27.15
Upper Middle Income Group (average)	43%	Social categories	SC: 7.51% ST: 5% OBC: 11.34%
High Income Group (average)	67%		Others: 24.9

(Source: Agarwal (2009), pages 28 and 54.)

In 1947, there was urgent need for basic reform of the structure of the education system and its content. Instead, only piecemeal and *ad hoc* changes were brought about. The attempt to make the system resemble the Western education system made it both elitist in content and expensive, so that a majority of the population could not afford it. The result was a segmentation between the different classes and the marginalisation of the marginalised. It also became increasingly divorced from the Indian context.

Some of the major changes in higher education policies can be traced to the reports of the various commissions and committees set up by the government. Some of the important ones have been:

1948-49: University Education Commission (Chairperson: S. Radhakrishnan).

"We cannot", the Report of the Commission points out (p. 44), "separate the individual from society. Social justice is the foundation of States." It suggested that conditions in universities, which are suffering from lack of finances and consequent demoralisation, be greatly improved. Further, that the State should recognise its responsibility for the financing of higher education.

One of the major recommendations, which was later implemented was to set up the UGC patterned after the institution in UK.

1964-66: Education Commission (Chairman: Dr. D. S. Kothari)

> The Commission's report begins with its celebrated declaration: "The destiny of India is now being shaped in her classrooms. . . ." It recognised that India cannot forever remain as a receiver of knowledge (para 1.10). India's contribution can and should be far more than material gains. India is heir to an ancient and great civilisation, which can make a contribution to human progress by striving to create the "age of science and spirituality".

It recommended the introduction of work experience (which includes manual work, production experience, etc.) and social services as integral parts of general education at more or less all levels of education. This was akin to what Gandhi had suggested. An important recommendation was that expenditure on education ought to be 6 per cent of GDP.

Later, the National Policy on Education was announced and was based on the recommendations of the Kothari Commission. It suggested free and compulsory education for children up to the age 14. It felt that the quality of education can be raised by raising the status of teachers, ensuring academic freedom of teachers and in service education of teachers. It was for the equalisation of educational opportunities for deprived groups, like women, lower caste and those with physical disabilities.

The Education Commission Report of 1986 assessed the deficiencies in the education system in India at that time. It pointed to the decline in the per student expenditure at all levels of education. It also found that a large number of teaching positions were unfilled in institutions of higher learning, especially in the medical and engineering streams. This was having an adverse impact on the quality of higher education.

Policy changes also took place following the Reports of the Pay Commissions set up every ten years. They have tinkered with the structures of higher education. For instance, they have sought to slot academics relative to the salary scales of the bureaucracy (a throw back to Macaulay's vision of superiority of the bureaucrat over the thinker). Even though the academics are required to be more skilled and have more degrees, their salaries are kept lower than those of the bureaucrats — an assertion of their supposed superiority. To discipline academics, introduction of bureaucratic structures of control have been suggested.

For instance, the Mehrotra Committee report wanted academics to be present in their rooms 40 hours a week — like the bureaucracy does. This ignores the fact that most faculty members do not have a room or a designated desk. Further, how would academics attend seminars, go to libraries, and so on. There has been an attempt to create hierarchies amongst academics by dividing up the scales and requiring them to fulfil conditions to go from one scale to the next. An essentially three-stage structure in higher education has by now been converted to six stages. That this could lead to a

meaningless paper chase or to worthless Ph.Ds and M.Phils or to mechanical attendance of refresher courses in Academic Staff Colleges was no one's concern. Underlying these kinds of steps has been mechanical thinking divorced from the needs of academia. Above all, creation of hierarchies in academia is not conducive to the autonomy of the academic. In the presently prevailing largely feudal and hierarchical system, academics seeking promotion are required to conform and not be too vocal. This undermines the idea that "dissent is the essence" of higher learning.

In brief, the state played a large and increasing role in education in India from 1947 to 1991. This led to a massive expansion of education at all levels but the quality of education has remained indifferent at best with few institutions excelling and very little talent produced. In fact, what ever talent comes up is in spite of the system, which is mechanical and not conducive to nurturing creativity. Society has not given the priority that education requires, and as a per cent of GDP, expenditures have not risen. Further, the big changes in the structure, especially of higher education, have not addressed the real issues of autonomy and accountability (Kumar, 1989c) and instead moved them in the opposite direction with greater bureaucratisation. Finally, the relative salaries of teachers in the income ladder in society have declined so that it has become a less desirable profession and has not been able to attract talent as the Education Commission 1986 pointed out.

3.2 Important Policy Changes in the Field of Education After 1991

As discussed in Chapter VII, the nature of globalisation changed in 1991 to one based on marketisation. Consequently, as argued, the philosophical basis of policy changed and they were overhauled, including policies relevant to education. This led to a strategic retreat of the state and promotion of the private sector in education. As pointed out, individuals are held responsible for their problems and the state is absolved of much of the responsibility to resolve people's problems. The presence of the private sector in education (especially higher education), which was small till 1991 was promoted. The growing pressures in WTO for opening up the services sector in general and education sector in particular also pushed India in that direction. The advanced countries saw a lucrative market for their institutions and possibilities of getting cheap labour for their economies. Simultaneously, the government initiated policies that stifled public institutions of higher learning by cutting their funding on the plea of fiscal stringency. This meant a reduction in recruitment of permanent faculty so that these institutions became increasingly dependent on poorly paid (less than even school teachers), sub-par,

temporary and contract teachers leading to a further decline in their standards. This provided further excuse for private sector expansion.

Since 1991, the market is overwhelmingly determining the preferences / choices of students partly because of the prevalence of large-scale poverty in the country. The unorganised sector is huge, acts as the reserve army of labour and there are few good jobs available to those entering the job market. Competition is intense for these desirable jobs so that the market can dictate terms. Further, salaries in the private organised sector rose sharply after 1991 so that the differential with academic salaries increased and they began to attract the best talent. Before 1991, many of the best students used to attempt to enter the civil services through competitive examinations. The shift to the private sector was encouraged by the curtailment of recruitment in the civil services and the reduction in the chances of promotion there. The professions (like, law) also became more lucrative due to their association with the organised sector and started attracting better talent.

The trend post-1991 has led to the overwhelming share of the private sector in the teaching of professional courses (*see* Table 11.5). There is also improvement for the marginalised sections, like females, SC / ST (Tables 11.2 to 11.4). However, enrollment in higher education remains low compared to even many developing countries and is far below the levels achieved in the advanced countries. What the enrollment data does not reveal is that the quality of most of the education is indifferent at best (GOI, 2012). Students are forced to resort to private coaching and tuition outside the schools in a big way (as is evident from the large number of advertisements, which often run to full pages). The phenomenon of "Kota schools" that offer full time teaching and coaching for success in competitive exams has gained acceptability in society.

Table 11.5

Higher Education Institutions Offering Professional Courses, 2006-07

Number of Colleges		*Share of Private Colleges*	
Types of Colleges/Institutes	Number	Types of Colleges/Institutes	Share
Engineering	1,617	Engineering	91%
Pharmacy	736	Pharmacy	95%
Hotel Management	80	Hotel Management	94%
Architecture	116	Architecture	67%
Teacher Education	5,190	Teacher Education	68%
MCA	999	MCA	62%
MBA/PGDM	1,150	MBA/PGDM	64%
Medicine	233	Medicine	50%
Physiotherapy	205	Physiotherapy	92%

(**Source**: Agarwal (2009), page 88.)

Since 1991, many commissions and committees have been set up in India, which have recommended marketisation and copying of the Western model of education even when these do not suit the needs of a very poor country like India. Why has this come about? These expert bodies were peopled by political favourites and academic bureaucrats who tailored their recommendations to suit the dictates of their political masters. They were innocent of independence in thought and understanding of the role of education in society. A listing of these commissions and committees and their brief recommendations are given in Appendix 2.

Of late, the choice has fallen on non-academics and non-bureaucrats, like Mr. Sam Pitroda who heads the Knowledge Commission or Mr. Ambani and Mr. Birla who produced the Ambani-Birla Report (*see* Appendix 2). These worthies hailing from the super-elite classes, lacking in an overview of the problems and with little idea either of Indian conditions or of how a backward society can be spurred to knowledge generation, have produced reports that have little relationship with the problems of Indian academia. That is why they have faced large-scale hostility from the thinking academics. These reports are seen to be self serving and promoting education for profit. That education has been characterised as a noble profession, which is almost impossible to value and that it is the mother of all professions and learning, and, therefore, is different from any other good or service in society has been completely overlooked by the committees headed by these worthies.

In the case of primary education, in 1991 the District Primary Education Programme (DPEP) was initiated. Loans were taken from the World Bank (Structural Adjustment Programme), and as always, the conditionality was to marketise this sector. World Bank recommended paying market determined salaries so as to maximise usefulness of the funds spent on education. However, the pay was reduced to ₹ 3,500 (to under-graduate teachers) instead of the ₹ 9,000 that was the previously prevalent salary. Foreign aid increased to finance education in a big way. This is always an entry point for foreign governments to apply pressure to get national policies changed in their favour and this happened in India as well. The inflow of aid increased from ₹ 374 million in 1993-94 to ₹ 12 billion in 2001-02 — a 35-fold increase in 8 years.

In 2003-04, the government introduced the Sarv Shiksha Abhiyan (SSA) as a means of spreading literacy. But the pay to the teachers to be recruited under this scheme was kept at ₹ 750 (even below the poverty line) showing a lack of national will to give proper education to all. The teachers recruited under this scheme at such a low salary can only be expected to use it as a source of additional income. They have to get other work to survive so they cannot be expected to be committed to education. The scheme has been accused of diluting the standards of education.

To attract the children of the poor to the schools, the mid-day meal scheme was introduced on a large scale. Unfortunately, often the teachers have been required to cook the meals, once again letting teaching suffer. The amount of money allocated for a meal for a child is less than the price of a cup of tea in the local market. This gives an idea of the priority accorded to children by our policy makers. However, this scheme has helped increase school enrollment even if the quality of education remains in doubt.

The 86th Amendment, Article 21A sought to make it obligatory for the State to provide free and compulsory education to all children between the ages of 6 to 14. In 2009, the Right to Education Bill was passed and amended in 2011 but its implementation is slow and it is proving to be controversial since it leaves out certain categories of children.

4. Continuing Disruption in India's Education System

The preceding discussion suggests that education in India continues to face a variety of challenges at all levels — primary, secondary and tertiary. As pointed out above, the commissions and committees set up since independence to reform education did not critically analyse the deficiencies in the existing system, so they could not identify the root cause of the problems facing education in India and ended up suggesting *ad hoc* patchwork. Underlying their thinking has been the assumption that it was good enough to replicate the systems in the advanced countries. They did not realise that what they thought was the solution was the problem afflicting Indian education over a long period of time.

In the process of doing a poor copy, India has encouraged brain drain. Since, the ideal was the West, the best talent wanted to go there rather than stay back with what was second rate. Society decided that success meant going West and this reinforced the tendency for brain drain. As talent drained out, the chance of doing good research in India also decreased. Indian research often followed the fashion in the West, so it was not directly connected with the Indian conditions and that led to alienation amongst researchers, their lack of commitment to the nation and their desire to go West.

The above is a reflection of the disruption of Indian society as revealed in its elite's thinking (coloured by colonial rule), making it believe that copying the Western system of education was the way to reform. Some of the key challenges facing India's education system are discussed below.

4.1 Some General Considerations

4.1.1 Education, Standards and Standardisation

Given the poor standards of education in most institutions (with some exceptions) in India (whether schools or colleges and universities) institutions have been set up (such as UGC and NCERT) to set standards in education and of late, regulatory bodies have come up (like NAAC). Unfortunately, they have confused setting standards with standardisation and suggested model curricula, model text books, minimum qualifications for recruitment (B.Ed. and NET), the manner of running the research programmes, standardised entrance tests, rating system and so on.

The process of learning and imparting instructions or doing research are so individualised that no one way works for all or even the vast majority. The way children learn differs from child to child. We do not understand how to create a Ramanujan in the schools so that the process of nurturing talent is a hit-and-run process. It often happens in spite of the poor school system that we have. When teaching is indifferent, most students do not understand the matter being taught, lose interest in learning and their active minds seek other avenues to engage themselves and they get branded as trouble makers. Good teachers have very different and individualised ways of imparting instructions since they view the material to be taught very differently from each other and devise new ways to get it across to the maximum number in the class. Researchers have to generate new knowledge at the cutting edge (otherwise it is not worth it) and have to understand things differently than other researchers. Standardisation goes against all this.

The steps taken in the country to standardise not only do not address the underlying infirmities but have created new problems by curtailing the autonomy of the institutions, departments, teachers and researchers. They have resulted in greater bureaucratisation, which has led to further troubles in spite of much expenditure. For instance, consider the model curricula. The committees set up were manned by the favourites of those in power and not necessarily the best in the field, as happened in the case of many of the NCERT committees set up to write the school level text books or the committees set up by the UGC to suggest model curricula for different subjects. The UGC-proposed curricula have turned out to be outdated or copied from other institutions or without an underlying view of the subject. In principle, even this problem could be tackled but the basic problem of erosion of autonomy of the academic (critical for higher education) that model curricula implies, leads to mechanical and disinterested teaching based on notes and rote learning.

NCERT has been getting books written for schools for a long time, since good books are not available. They are supposed to be the model text books, which could spur others to write school text books but that has hardly happened and they get adopted wholesale in schools because the examinations are based on them. Some of them are good in an abstract sense but perhaps not meant for Indian children. They are often written by university teachers who have little idea of how children learn. Since the university teachers are themselves mostly the victims of learning by rote, they are often unable to rise to the occasion and hardly devise innovative ways of teaching or producing appealing content for the children.

Even in schools, the board-suggested curricula ought to be suggestive so that the teachers retain the autonomy to teach the subject the way they think best. It may be argued that this would not work because teachers are disinterested and in any case most are disinterested in teaching. However, by devising a poorly-crafted curricula and getting disinterested teachers to teach, how would the problem be resolved? The basic problem is the disinterest of most academics and this needs to be resolved. Independent of that, none of the mechanical solutions would work because the commitment of the teachers is critical. Similarly, in institutions of higher learning, laying down of guidelines for the Ph.D. programme will not deliver quality when many academics have themselves done indifferent research or only understand how to cut and paste and often are more interested in tuitions and coaching classes. Those interested in beating the system usually devise ways to circumvent the intention of whatever rules are laid down while those who are interested in good academic work get frustrated by the bureaucratisation and, therefore, unable to deliver. This is the worst of all worlds and results in the opposite of maintaining standards.

Requiring faculty to spend 40 hours a week in the institution, like an office worker, will also not work since time can be whiled away in many ways. This requirement could be counter productive by stifling the creativity of those who are productive because they go to the library or the archives or attend seminars rather than sitting their rooms only. This regulation would curtail the autonomy of academia by forcing academics to take permission of authorities to be absent for academic work and open them to manipulation by these authorities who typically do not like independent academics who question them and are seen as trouble makers. Often authority is used by those in power to deny permissions and harass independent people while rewarding the compliant. This is not mere idle speculation but the reality in many institutions of higher learning in India. Thus, those who do not want to work would continue to shirk while the creativity of those interested could be potentially stifled.

Another bureaucratic scheme to give incentive to academics to perform better is the Career Advancement Scheme. It has fostered an industry to mechanically publish papers and books and attend meaningless conferences to generate sufficient numbers to get promoted. Many faculty members waste time manipulating to get promoted rather than doing genuine teaching and research. Finally, the scheme is often used to frustrate the independent intellectuals and get the juniors to be subservient to authority, both of which undermine their autonomy and originality. Thus, again this scheme fosters the worst of all worlds.

Standardisation, especially in higher education, could lead to the curtailment of diversity of ideas in society. In the case of the UGC-proposed curricula, even though it was supposed to be only a model it began to be imposed on the institutions that came up for review by the UGC. This curtailed the autonomy of many of the good institutions that had devised their own superior curricula. This forced homogeneity has led to a reduction of questioning of the dominant philosophy in a subject. This can only lead to fewer ideas floating around in society and incentive to conform rather than dissent.

Further, the curricula often gets so packed that students may have little time to reflect on the content as is the case in the IITs, the IIMs and professional courses, where the best minds tend to gravitate. The students of these institutions are kept so busy that they hardly have time even to reflect on the philosophy of their subject much less the broader concerns of society that shape them. In some sense, these students tend to become illiterate automatons mechanically doing what their employers want them to do. This suits the corporate sector, which would not like its employees to question its practices based on profit maximisation in every conceivable way. No wonder, the course on business ethics taught in schools of management is a decorative one that is not to be taken seriously. Teachers in business schools say this course helps keep one's conscience clear. The basic training is to keep the bosses happy and keep the balance sheet ticking come what may. The salaries given are so much out of line with what anyone else gets in society so that there is a huge incentive to not rock the boat. In the name of rigorous training the students are not allowed to develop a critical outlook, which would help them question what they are doing, much less the ruling ideology.

Students entering IITs and IIMs are selected through competitive exams requiring a high order of examination taking skills and not necessarily understanding of the subject. To acquire this skill, they invariably go for coaching of some kind. They learn to reproduce large volumes of information. The process of channelising the intellect of the brightest into a narrow framework begins in the schools and is carried forward through the entrance examinations of the best institutions and the training imparted there. In brief,

the examination systems all around reinforce the mechanical process of learning at all levels. Since testing of understanding is only incidental it is not of concern to the students also who are only interested in marks as a passport to a good job.

Of course, standardisation is possible but the issue is whether it is desirable? The above discussion suggests that learning and teaching are complex and should not be straight jacketed through standardisation, which would adversely impact the better institutions and the teachers. Further, since these processes are little understood, big mistakes can occur in trying to mould them through incorrect means. An academic institution is not like an office or a factory. The teacher's or a researcher's job cannot be judged largely in quantitative terms — quality is paramount. One inspired lecture is better than a hundred indifferent ones that kill the interest of the students. One good book may be worth more than hundreds of indifferently published papers even in refereed journals. It requires a higher level of skill and commitment than for an office or a factory worker. Judgments cannot be mechanical as those in favour of standardisation attempt to make it. Commitment and quality are the essence, and are hard to measure as methods of standardisation attempt to.

How new knowledge on a vast scale is to be generated is hardly understood by those governing our institutions of higher learning. Hence, they are constantly devising mechanical yardsticks to standardise under the rubric of accountability — number of hours spent in the institutions, number of classes held, number of research papers published, etc. It is not that these things are unimportant but they do not work mechanically and by themselves cannot help in generating new knowledge or even teaching the students to think for themselves. The bureaucracy (including academics) governing education (say, in NCERT or UGC) typically has a bureaucratic mindset, which equates education with bureaucracy or a factory, and that is why it suggests standardisation. It simplifies governance and compliance with dictates. Could indifferent teaching perhaps be worse than no teaching? Could giving an incorrect understanding of the subject or making students feel that it is beyond their comprehension be worse than no understanding which has a chance of being rectified.

Currently, distance learning and the use of Internet are being promoted in a big way. It is hoped that this would help improve standards. The idea perhaps is to replace the indifferent teachers with technology. In an insightful paragraph Pathak (2009) points out:

> " ' . . . radical innovations in the domain of information technology . . . are questioning the very relevance of a physical site called the classroom in which teachers and students engage in a direct face-to-face communica-

> tion.' Further, 'Photocopies, open school / university learning material, and the Internet, it may be argued, reduce the significance of the teacher. While these changes arouse concern and anxiety, the fact remains that the relevance of the human agency of the teacher can by no means be negated.' It is argued, 'Technology, no matter how sophisticated and refined, cannot replace the role of teachers — a job that requires human touch and a spirit of continual dialogue and reflection.' " (p.186)

Another bureaucratically motivated proposal is that teachers carry biometric cards to punch, like in a factory, so as to ensure attendance in the institution. Who can object to regular attendance? But, in the absence of proper libraries and rooms to sit in and meet students, this forced stay in the institution may only result in whiling away of time and demoralisation. Thus, rather than this mechanical solution for ensuring attendance, the problem has to be tackled at its root — why are the teachers and researchers so demotivated that what can be fun has become a burden. We need to ask what can be done to motivate them and make them accountable to society (*see* Section 4.2.1 later). Students can hardly learn from those who are themselves not motivated to teach or conduct research and are doing so largely because they lack alternatives and biometric cards cannot change that. These problems cannot be resolved by standardisation which may only make it worse for those in the system who may wish to teach the way it should be taught. The bureaucratic solutions lead to the worst of all worlds for education.

We copy from the West but even that is done poorly because the essence of education there is the promotion of originality and copying is its antithesis. The problem of standards in India is also due to the inadequate number of teachers and lack of facilities and especially in schools. Thus, instead of wasting money in Academic Staff Colleges, NET and so on, if this money was used to set up more schools, recruit more teachers at higher salaries, institute more scholarships for research, etc., standards could improve faster.

Given the qualitative nature of education, standards are very important but they have to be set by the peer group and individuals motivated to excel. But why is this not working in the Indian system of education? As discussed earlier, it is due to the historical roots of the present Indian education system, the leadership's inability to shed this baggage, the entrenched feudal attitudes and its desire to copy uncritically from the West due to its infatuation with modernity. All this has led to the mistaken belief amongst the ruling elite that standards may be achieved through standardisation, little realising that it may be counter-productive when the motivation is missing. One can take a horse to the water but cannot force it to drink.

4.1.2 Education and Growing Commercialisation

As discussed earlier (*see* Chapter VII, Section 3), today's globalisation is based on marketisation, which implies the penetration of market thinking into people's consciousness. Education and our thinking about it are no exceptions. Benefits of education are sought to be measured in monetary terms even when that is difficult or impossible. It is almost tautological since the benefit is equated to the money spent. So, if more fees are charged, like in IIMs, it is more beneficial and if earlier less was charged, it became less beneficial even though in qualitative terms there is almost no difference. The result is, commercialisation is sweeping education and it is losing the characteristic of being a noble profession. The old adage that one cannot repay for the education one gets or that one can only be grateful to the teacher is a thing of the past with neither the students nor the teachers believing in it. This is the key reason for many of the problems of education in India. Pathak (2009) aptly puts it:

> ". . . culture of money-making / skill-oriented / instrumental learning have led to the commodification of education. Its consequences are devastating. It annihilates deeper aesthetic / ethical / spiritual ideals of learning; . . . it reduces him (man) into a mere resource . . . . " (p.9)

Today, few academics are independent thinkers. A large number of scientists and researchers are co-opted by either the government or the corporate sector or both, through funding and / or membership of powerful committees. Academics have to appear to be "reasonable" — that is, not too critical of the government or the corporate sector and they must see the other point of view however inaccurate it may be. They are supposed to see the actions of these entities as reasonable or "balanced". They should not "go overboard" — that is not be forthright in their critique to be characterised as "balanced". The presentations they make are supposed to be slick and well-crafted — keeping all points of view in mind, no matter how inaccurate or incorrect some of them may be. A "reasonable" person is one who adopts the "middle path" even if the middle of a correct and an incorrect position would also be incorrect.

There are reports of corporates using their research funding to buy the silence of scientists who worry about losing grants for their expensive research. Drug companies are notorious in this regard. They host conferences and junkets for doctors who then prescribe their products. The link of cigarette smoking with cancer was hidden from the public eye for a long time due to the pressure from the corporates. Similar stories are mentioned in the case of other harmful drugs and chemicals, too. Corporates have admitted only with a great deal of reluctance that their products suffer from any kind

of infirmity, major or minor — usually after much public pressure — and shown little ethical concern. They have enough political clout at the right places to circumvent even existing laws.

Often motivated research is carried out due to the large-scale funding available from rich donors like the World Bank and other international agencies that have an agenda of their own. They are able to give a slant to the debates due to their sheer presence and the number of studies they are able to fund, which reinforce the same conclusions with different examples and in different ways. For instance, they have tried to establish a link between market-led growth and mitigation of poverty. The weight of these large donor agencies and the lure of the lucre are so great that a large number of intellectuals have accepted this as the truth all over the world, including in India. Under the impact of marketisation, for many academics this is profit maximisation for themselves and their financiers while social concerns take a back seat.

With commercialisation, intellectual property rights (IPR) have become important because they convert knowledge into someone's property so that income can be earned from it. This suits the corporates. Similarly, human beings have been turned into human capital yielding a return. Thus, markets are created where they did not exist. It is forgotten that all knowledge is built on the base of pre-existing knowledge so that the claim of being the first to find or do something has only a limited social value. Without the knowledge of electricity how could Edison have invented incandescent bulb or the telephone? But now the drive is to convert every opportunity into a flow of income by creating markets, hence, the drive to create intellectual property.

That new knowledge may be discovered simultaneously (or almost so) by several others working independently is given little weight. Researchers and laboratories become secretive about knowledge generation so as to protect their profits and this slows down advances in knowledge. That there are conflicts leading to wasteful litigation, etc. is not taken into account. All this results in product differentiation, non-standardisation and wastage is ignored. For instance, chargers for mobiles come in all shapes and sizes and have to be changed ever so often rather than being standardised so that they can be interchangeably used. This would require an industry standard based on mutual agreement but with extreme competition this is not feasible. Similarly, video recording had several standards that were non-interchangeable so there was a multiplicity of equipment and wastage. In the case of software, there were many non-compatible softwares causing problems till the open source software emerged, which was transparent. Now other software makers have been forced to become more open and transparent.

The argument in favour of IPR is that research has become very expensive and unless returns are assured, companies would not carry it out,

thereby slowing it down. In the current context, this may be true because this has become the dominant form of research in much of the world. However, if the model is changed to public-funded research, a different set of incentives would work and research may not suffer from the above mentioned infirmities and also get speeded up. In the Soviet bloc, the problem was not that research was being done slower than in the Western bloc but it was not being applied to create consumer products and cost was not a consideration.

The argument that researchers would only work if there is a monetary incentive is rather weak. Most of the best work has been done without any reward of any kind and mostly because the people doing the work were interested and committed to doing what they enjoyed doing. In fact, most of the basic research, which has been the basis of later applied work is done with state support and this pattern has been successful, wherever there is commitment and openness. Opposition to IPR is seen as romanticism in a world where everything has to be market-driven and the only motivation for originality is recognised as making money. World over, the number of researchers has increased, so that more knowledge is being generated but that is mistakenly attributed to marketisation and creation of IPR. The number of researchers in publicly-funded institutions has also increased leading to increased flow of research output so the issue is not just of private initiative.

The marketisation model ignores that there are truly creative individuals who are driven by love for learning, advancement of knowledge and a drive to invent. It is possible that in the absence of IPR and with free access to knowledge, advances could have been made faster than at present? The huge interests of the corporates and big money involved in lobbying does not allow these questions to be raised except at the margins. Under the pressure of WTO and the advanced countries, India has also gone in for a more stringent IPR and patents regime after 1991. Reports suggest that this has set back R&D in the country.

Commercialisation has also affected the choices of society, students, researchers and teachers. In the market, money determines choices so that increasingly what subjects are popular is being determined by marketability and this is being influenced by the corporates. No wonder, subjects that look at the corporate sector critically or are not directly useful to the corporate sector would be less marketable and, therefore, less popular or not offered at all. This can lead to entire curricula changes in institutions and relegation of subjects to the margins. It has resulted in applied subjects gaining precedence over the basic subjects. For instance, management is preferred to economics and bio-technology to biology. Consequently, enrollment in a basic subject like physics has dropped causing concern to all those who take a long-term view of education. In the case of social sciences, economics is preferred to philosophy and history. What is forgotten is that the past pro-

gress in the basic subjects is the basis of the rapid progress in the applied fields.

Under marketisation, charging higher fees is legitimate since not only costs have to be covered but profit has to be made. Thus, increases in fees are considered legitimate even if the vast majority cannot afford them. That there would be segmentation in education and the democratising influence of education in bringing together the rich and the poor into the same institutions would be lost does not matter to the market. That the poor would be trapped in poverty with no or poor quality education is also immaterial.

In brief, commercialisation of education is creating new and long-term problems that are not immediately apparent to the ruling elite who under the influence of corporates are pushing for it. Its apparent advantages, like increased research, may be for other reasons than commercialisation. While commercialisation may be more acceptable in the developed world with its higher incomes but is hardly the solution in a vastly poor country.

4.1.3 Some Critical Issues in School Education

The role of schools is to prepare the citizens of the future both by equipping them for higher learning and giving them the basic skills they need in life. The better the skills of the children trained in this system, more productive they would be in whatever they do in their lives. Unfortunately, with few exceptions, the quality of education in schools — primary and secondary — is of indifferent quality (GOI, 2012). Teaching — learning outcomes are poor in India because of poor quality of teaching in schools.

Many schools simply do not have teachers and even those who are there are generally demotivated given the working conditions, salaries and low social prestige. There is high degree of absenteeism amongst teachers of government schools (many teachers miss classes because they prepare food for the Mid-Day Meal Scheme). There is lack of basic infrastructure, which not only demoralises the children but also the teachers and compounds the problem with regard to teaching and learning. Even in the capital of the country, many schools do not have toilets or drinking water facilities making it difficult for children (especially the girl child) to attend school. Often the teachers are expected to do other tasks for the government (like election duty and census work) and teaching is relegated to the background, becoming one of the jobs they have to do rather than the most important one.

Large numbers of children drop out from the schools at an early stage due to poverty and many others drop out mentally since they do not find learning in the schools interesting. Even if teaching takes place it is often indifferent and the curriculum is found to be boring by the students (In a recent survey, 25% of students found the curriculum boring). The data for

the decline in enrollment figures at different stages of schooling (*see* Table 11.3) reveal the drop-out picture.

For the children of the poor, attending school has a high opportunity cost. The child can be set to work to supplement the family income. Typically, children of the poor suffer from malnutrition and have learning disabilities (no data are available for this) and cannot acquire the basic minimum skills without special attention. They may suffer from problems of attention deficiency, defective vision or are hearing impaired, etc., and would have even more difficulty in learning than the children who do not have these deficiencies. Special teachers, individual attention, special programmes and curricula are required for such children but little attention has been paid to any of this given that education of children as a whole receives inadequate attention. When there is a shortage of teachers who anyway lack motivation and have to deal with large class sizes, expecting special teachers for the challenged children of the poor is a tall order. Even elite schools in Delhi with large resources often treat differently-abled children (whose problem is not due to malnourishment but other causes) as trouble-makers and try to keep them out of their schools or at times ghettoise them.

Analysis of school education is vitiated by errors in available data. Statistics are highly deficient or at times inflated to show better performance. For instance, data on enrollment and the abilities of children are often defective. This comes in the way of planning for improvement of education in the country. However, government's indifference to the quality of data may also relate to its concern about its image, both national and international, since the unveiling of the true picture may shame them. The correct picture may dent the idea that India with its large number of young people can provide trained manpower to the rest of the world and reap the demographic dividend. It may also be asked why we should export our best trained youth elsewhere and not harness them to our own needs. When do we hear of the USA or Japan preparing its youth to go abroad and work there?

An important problem in a democratic nation is the growing differentiation amongst the various classes due to the segregation amongst the schools. The children of the rich attend elite schools, those from the middle classes largely go to private schools of not very high quality and those of the poor enroll in government schools that are largely of indifferent quality. The number of children in a class in elite schools is usually small, so that they get more individual attention from good quality teachers, in addition to having excellent infrastructure. The students going to government schools get little of this and those of the middle classes get something in between. The Central schools and the Navodaya Vidyalayas do make a difference but their numbers are tiny. Thus, the children of the poor, even when they get schooling, start with a tremendous handicap in life. This undermines a key pillar of

a democratic society, namely equal opportunity to all. Its deficit results both in alienation of citizens and undermining of democracy.

Availability of high quality school education to all is important for the healthy growth of the nation. But often we are happy with an apology of education and poor literacy rates. Good quality education is no doubt expensive but are we short of resources to provide for it? What is required — one-time expenditure to create the infrastructure and annual expenditures to run the schools. These amounts are miniscule compared to what is wasted in the corporate sector and by the government. Further, as discussed in Chapter VIII, the amount of resources lost to the government due to the existence of the black economy are huge and if even a fraction of this could be tapped, there would be no problem. Not only would the nation be able to spend 6% of GDP but much more. Additional expenditures are needed for the public sector schools since the well-off sections have no shortage of resources and take care of themselves through private spending. Thus, additional expenditure ought to be for the poor and the lower middle classes who cannot afford the expenditure and are dependent on the government for support.

The above analysis suggests that inequity is embedded in the Indian education system and the handicap that the poor and the marginalised start with gets aggravated in life. The requirement of a good command over English for most desirable jobs makes the handicap worse. It is not taught well in government schools. Students who manage to get into higher education are supposedly the best the schools produce and this is especially true for the students from poor classes. But, for these students, due to their lack of command over the English language, the handicap against them increases and their chance of doing well in higher education declines. This is the reason why those who can somehow send their children to private schools that teach English well prefer them to government schools, even though it is a costly affair. In small towns, along with other kinds of coaching, English coaching bureaus have proliferated.

As argued earlier, children are mostly encouraged to learn by rote and their innate curiosity, self-discovery and questioning get blunted. It is the rare child with commitment who develops the skills in spite of the education system and does well in life. Children are forced to specialise early (9^{th} or the 11^{th} classes) even when they have not discovered themselves and their latent talents. School teachers are often of indifferent quality who themselves were never interested in learning and strayed into teaching because they could not get into other lucrative ones. They do their job mechanically and hardly inspire the children. Many of the good teachers are overqualified women who have time at home and wish to "pass it" and often lack professional interest but they are kind and considerate.

The lack of professional commitment amongst the school teachers shows up in the lack of innovation. They try to get by with minimal work, and so, do not try to experiment with different teaching methods or writing good school text books. It is not that school teachers do not write text books but they are of poor standard and designed to help the students pass examinations by mugging up. Exams are mostly designed to test how well the students can give standardised answers. Since in the system, passing Board examinations with high scores is essential for the career ahead, tuition and coaching, which hone the skill of mechanical reproduction of answers to standard questions, have become critical. Children bear a double burden — first time is spent in the school and then in coaching. This leaves little time for their wider development. For students, teachers ought to be role models but teachers who teach poorly and impose tuition on their students can hardly be role models and lose the respect of the students and society.

Expenditure on schools, coaching and tuition together is high. So, society as a whole spends a lot of money on education, yet the quality of education is poor — the cost to both society and the families is high in relative terms. Of course, in absolute amounts we do not spend what the advanced countries spend but in relation to our per capita income, the expenditures are high. More importantly, compared to the surplus over and above the basic minimum consumption need of the families, expenditure on education is high even for the middle class families. It is not that the fees in government schools are high but it is the need for coaching and tuition that raises the cost to the family. If this amount was directly paid to teachers as salaries, perhaps one could have recruited better quality teachers who would have shown commitment. Since the formal payment to school teachers is relatively poor, only those who do not get alternative jobs opt for it, so that the teachers tend to be of poor quality. Thus, due to inappropriate policies, society gets the worst of all worlds — it spends a lot on education but gets poor quality since resources are inefficiently used.

Indifferent school teaching is also a result of poor quality of higher education that produces the teachers. Most higher degrees are of poor standard as discussed in the next section. Even out of this lot, only the weak students opt for school teaching due to the prevailing salary differentials. This is a reflection of the marginalisation of teaching and that too, school teaching, which in turn, is a reflection of the priority accorded to it by society.

In brief, with few exceptions, the state of school education is poor. There is lack of will for universalisation of school education and what the children get is an apology of education and that too, at a high resource cost. School education is not so much about cost to society as about a perspective and if that could be corrected, there would be no lament about shortage of resources. The principal resource required for education is human and there is

no dearth of that but it is poorly trained and lacks motivation. Education is far more about commitment than about mechanical work, so we need to motivate teachers. By not granting the rightful place to school education, the nation has displayed a lack of commitment to its own future. Once again this is due to the disrupted consciousness which has resulted in a lack of understanding of the national interest and commitment to it.

4.1.4 Some Issues in Higher Education

Expansion of higher education in India has been rapid (Table 11.1) but is still far less than even in many other developing countries. But the biggest problem is that teaching and learning are of poor quality in most colleges and universities. It is to be expected given the poor training that most children get in schools and given that the best prefer not to be teachers or researchers in institutions of higher education.

The task of higher education is to take the young generation to the cutting edge of knowledge and to prepare them to advance knowledge beyond the existing frontiers. Even though only a small fraction of the students will opt for higher degrees and research at the cutting edge and most would branch out into applications of the existing knowledge, that ought to be the main purpose of the system of higher education. The system ought to filter the best to the top of the pyramid to do teaching and research. Others who pass through the system are needed to perform the variety of other social functions, like teach in schools, work in the armed forces, become managers and clerks and workers in factories. They also require the best possible training commensurate with the needs of the job. If they receive indifferent training the productivity of whatever they do will be low and society would lose due to wasted talent.

Producing excellence is a random process, so more the numbers in higher education greater the chance of its occurrence. Those who opt to quit before they reach the very top (for any reason) are a necessary cost of producing talent. In today's marketised economy, the salary structures are important and should be such that the young making a career choice do not face perverse incentives and drop out. For instance IIT graduates leave after a B.Tech. to join management or industry because they can draw better salaries through that route rather than if they join research. Consequently, the Ph.D. programme suffers in these institutions. It is a waste of talent that some of the best are motivated to sell soft drinks, soaps, toiletries or oil at high salaries rather than do research at the cutting edge.

Due to disruption in society, while earlier some of the best opted for the bureaucracy (to become glorified clerks), now the market is dictating that they join the corporate sector. The disrupted consciousness does not recognise the deadening effect of many of these jobs on creative minds. Giving

preference to power or money above creativity is an aspect of the devaluation of ideas in society. A nation that does not value ideas also does not generate them and is forced to borrow them from elsewhere (we have got used to that) even if not relevant to the national context and this condemns the nation to a second rate status.

Producing excellence out of a mass of students cannot but be a shot gun approach. So, there is a need to move a lot of people into higher education of various kinds and assure high standards all along the line. Limiting higher education to a few who can afford it not only worsens the inequity created during the school years but also reduces the chance of producing more talent. Greater enrollment in higher education also has a democratising role when children from various classes rub shoulders with each other. There is a broadening of horizons as students become aware of others from different classes than their own. This is important given the vast disparities and differentiation that exists in India. The gap created by school education where they only meet their own kind, narrows. This democratising aspect has weakened with the emergence of elite institutions and the high-cost private sector.

Cheap education at all levels is an imperative for a very poor country like, India. However, now with privatisation sweeping the country and education costs rising, this is no more feasible. The trend is reinforced when advice is sought essentially from businessmen, like the Chair of the Knowledge Commission or the two joint Chairpersons of the Birla-Ambani report. Irrespective of the needs of Indian academia, given their business focus what other advice than marketisation of education in various ways could have been expected from them?

Quality is critical in higher education. Is it compromised because we have focused on quantitative expansion? As already argued, quantity is also important. Unfortunately, India is lacking in both. Our ranking in the world in terms of percentage of population in higher education is one of the lowest even though the absolute numbers are large given the population. The reason for the relatively low enrollment ratio and poor quality is the low priority given to education. Be that as it may, the Knowledge Commission has suggested the setting up of 1,500 new universities without critiquing why the existing 350 universities in existence are not of world standards.

Politicians are also in the game of announcing the setting up of new Central Universities, IITs and IIMs in every state (*see* Appendix 2). Repeatedly, it has been pointed out that top institutions in the country suffer from faculty shortfall of up to 30 per cent, due to non-availability of high quality faculty (due to the reasons discussed earlier). Setting up more such institutions can only add to the vacancies unless the pool is expanded. That requires a different approach. But such an approach is nowhere in sight because none of the

committees have been able to point to the fundamental flaws in the education policy as it has existed in the country.

There is a widespread impression that teachers do not take classes or give indifferent lectures. Lectures are often restricted to dictation of notes which discourages critical thinking. This is the case when teachers are demotivated and lack a framework for understanding their own subjects. As a result, they resort to cut-and-paste jobs to prepare lectures. They feel insecure in facing questions in the class and survive by asserting their authority. The books that are mostly used by the students are often based on cut-and-paste jobs that are good for mugging up to pass examinations. That is the goal for most students looking for a job — learning is a distant dream. The system of education functions on a triple coincidence of non-learning amongst the teachers, exam setters and the students. A large number of dissertations written are cut-and-paste jobs and again there is a triumvirate of the student, the supervisor and the examiner that makes a mockery of most of the so-called research done.

There are reservations for the deprived sections of society in higher education. While 22.5% reservations for the SC and ST students was granted after independence, recognising the historical injustice to that community, fresh reservation for the OBCs has been implemented recently. The Supreme Court ordered a ceiling on reservations at 50% of the total number of seats. The Court also argued that the opportunities to the upper castes should not be lowered while creating reservations for the OBCs. This required a 54% expansion in seats in higher education. A period of at most three years was given to implement this expansion, which required additional classrooms, laboratories, faculty positions, hostels, etc., and this is not feasible within a short period of time without damaging the institutions and lowering the overall standards. For instance, faculty shortage has worsened.

In the case of reservations, like in much else, implementation has been mechanical. While formally they have been introduced, the content is missing. Those coming from schools with very poor training and perhaps with learning deficiencies are supposed to suddenly cope with higher education and much greater stress. Instead of allowing these students greater number of years to obtain their degrees and putting together remedial courses so that they can overcome their handicap, they are thrown in at the deep end and standards are lowered to help them move up. The weak students know this and become insecure and this creates social problems.

The reservation policy has not achieved what it should have long back — it has had to be repeatedly extended. This has resulted in problems in the system of higher education but instead of the needed reform, we are continuing formalistically as earlier. No wonder the SCs, the STs and the OBCs are angry and so are the upper castes since they also feel discriminated against.

The lesson is that when the correct thing is not done at the correct time, new problems emerge.

The issue of financing — public or private — is associated with the above mentioned issues and this is discussed in Section 5 below. The nation needs to decide how much resource does it wish to spend and how best to do it? These are linked to the national priority. Education has large set-up costs and displays some economies of scale. It has externalities since it leads to benefits to society over and above what the individual gains and finally, it is a merit good since society may value education more than the individual does and, therefore, would prefer more education than the individual may wish for. These are referred to as situations of market failure and the literature suggests that under the circumstances, the only way to get to optimality is through government intervention.

A key problem confronting higher education today is that learning is getting compartmentalised (*see* GOI, 2009b also) and subjects are viewed in isolation, so that holistic solutions to problems do not emerge. This is because learning at the cutting edge now involves extreme specialisation, which leaves little time (or inclination) for a wider vision. Without such a perspective, education is becoming increasingly alienating. Further, narrowly trained academics also view their students in the same light and often argue that the students should be concerned with their studies alone and not worry about the wider social concerns and should not protest if they feel something is wrong. Thus, students trained in a narrow structure tend to be either careerists or alienated and often disinterested in learning.

The support staff in the institutions of higher learning in India (in libraries, hostels, administration, etc.) is usually lacking in commitment. There is a tendency for overmanning. None of this helps in the learning process. For instance, most libraries function poorly even though they ought to be the hubs of learning. This makes doing research in India even more difficult. Teachers and students get by with little reference work. In brief, higher education in India faces severe problems due to lack of commitment at various levels.

4.2 Bureaucratic and Feudal Attitudes at the Top and Educational Institutions

The nature of leadership in any field or institution is crucial for its functioning. The same holds true in the case of education and its institutions, too. The leaders of institutions of higher learning are the Vice Chancellors, Directors and Principals so that their functioning is crucial for the health of education. They are not only required to give a lead but also enable the

teachers and researchers in their institutions to give their best. One of their key functions is to protect the autonomy of the institutions they head by insulating them from undue outside influences, whether from the state or the market. Within the institutions, they ought to create the structures that give maximum autonomy to their faculties, so essential to creativity. But most of the worthies running our institutions of education are themselves either compromised or lacking in understanding of the concept of autonomy or view education very narrowly.

Many of them are chosen primarily because of their closeness to those in power rather than due to their scholarship. Often they feel threatened by the scholarship of others and, therefore, insecure. Thus, for many of them, originality of an intellectual becomes secondary to their own ability to run the institution they head. Often they use the divide-and-rule policy and create problems for those who do not conform because they have an independent opinion. This results in the creation of schisms in the institution and petty politics. Such people lack the confidence or the vision to create great institutions. No wonder, we have so few good institutions and often institutions that start well deteriorate rapidly.

Given the way those at the top are appointed, they remain dependent on their mentors. This saps their confidence to act independently. Since the game of moving up is not one shot but a continuous affair, one cannot afford to stand up to the mentors. To appease mentors and keep their group together, those at the top often become autocratic, riding rough shod over the democratic norms of the institutions they head. This severely erodes the autonomy of these institutions and brings in outside politics divorced from the academic requirements. Academic merit becomes incidental, appointments get affected and since faculties stay on for decades, the impact is long-term.

Those who are insecure, promote mediocrity systematically to obtain compliance with their wishes which those with originality are unlikely to fulfil. They seek out those who would be compliant and place them in positions of governance of the institutions. Such people who promote their boss's interest become the instruments for further suppression of the independent minded who are categorised as trouble makers in the system. The former also need to keep the latter down because their own advancement depends on it. The message goes down and the structures compliance and punishment are replicated all the way down. Thus, mediocrity and compliant behaviour is promoted all the way down and the institution suffers. In brief, the form of the existing education system in India often punishes and stifles those who are creative and original (its real assets) thereby leading to its own decline.

4.2.1 Stifling of Independent Thinking by the Bureaucrat and "Good" Academics

The Western orientation of the Indian elite and their feudal attitudes result in three categories of academics in institutions of higher learning in India — the "bureaucrat" academics, the "independent" academics and the "good" academics (Kumar, 1989c). True dynamism is provided by the second category but often they are squeezed out or frustrated systematically by the other two.

The "good" academic is defined in "Western" terms. Where they got their degrees from, where are their papers published and where have they taught, etc. To them, India is largely not the point of reference except incidentally. They often look down on Indian academia but use it to their advantage to get privileges. They are not particularly concerned with what happens in the Indian institutions as long as they get their privileges. They offer their services to the Western scholars and are willing to play second fiddle to them and their system and become the conduit for pushing the Western agenda on the country.

Most of the "good" academics maintain linkages with the international academia since they need to network there. The problems they work on are typically those that are considered relevant in the "West". Even when working on Indian problems they often adopt a Western perspective. They encourage their students to go abroad and link up with the academics there. The "good" academics bring with them the Western framework of analysis and their perspective on problems. Such academics tend to be "derived intellectuals" working on variations to the Western themes and recycling knowledge from there.

Society tends to bypass the derived intellectuals since it can go outside directly to the original source of knowledge rather than get it second hand. This is reinforced by the colonial legacy which considers whatever is western to be better. For the same reason, society mostly bypasses Indian institutions of higher learning, which largely recycle Western ideas. For instance, if technology is to be obtained, why burden the IITs since it is available off the shelf abroad. If public finance is to be reformed, why ask the Indian academics when the World Bank has a recipe available off the shelf and as a bonus offers loans for complying with its prescriptions.

When society bypasses institutions of higher learning their prestige declines and they become marginal in the nation's affairs. This further demoralises these institutions and their functioning suffers. This vicious cycle manifests itself in the mechanical functioning of many of these institutions — as if they are offices. For instance, universities and colleges function like government offices — 9 a.m. to 5 p.m. — with little excitement for learning.

Students and teachers come for a few hours a day, if at all. It is as if the thinking process can be stopped at a given fixed time just as a file can be closed and reopened the next day.

The "bureaucrat academic" is mainly interested in gathering power by getting to positions in the system largely through sycophancy of those in power. They become members of committees, etc., so that they can dispense favours to others to build their network. They replicate bureaucratic functioning in academia. No wonder often the bureaucrats run the institutions of higher learning better than the academics and at times there is a demand even from academics that these institutions should be run by bureaucrats. Academic institutions are supposed to run democratically through consultation because the ethos of these institutions is different than that of an office or a factory. But such functioning is undermined both by the bureaucrats and the bureaucrat academics, so naturally the former would do the job better than the latter.

Dissent is the essence of academic functioning. That is how new ideas emerge. Real learning requires challenging what exists and contending with alternative ideas. The more of this occurs the sharper the intellect becomes. The more the ideas are applied, greater the learning from them. However, the bureaucrat academic does not expect dissent to exist within the institution. It is alright only to theorise about or apply it elsewhere. If students are taught in the class that it is illegal to have child labour or to not pay minimum wage to workers then they are bound to object if these things take place in the institutions they are in.

Unfortunately, the bureaucrat academics tell them to not take up social issues and focus on studies as if the two are disjointed. They brand the protesting students as trouble-makers rather than encouraging them since they are correct in expecting the law of the land to apply even in their own institutions.

The government or the corporate sector invariably justify what they are doing. They argue that their actions are the best possible, given the circumstances. Academics seeking favours from them add their voice by presenting clever justifications. It is only "independent academics" who can dare to critique and point to the flaws. They can afford to take a long-term view of society, which the other two groups of academics usually do not. Academics not tied to a vested interest can hold the mirror to others. Questioning cannot be piecemeal — in some situations but not in others. Such academics would also question actions within the institutions and the academic bureaucrats find this inconvenient since they lack the intellect to justify what they are doing. They try to suppress dissent to make it easy to run the institutions as per their wishes and in the process become autocratic. Traditions of democratic functioning have to be nurtured and take time to build but can be quickly destroyed by inappropriate actions of just a few people at the helm.

The "good" academics are not interested in rocking the boat as long as they get what they want from the system. They are outwardly orientated, so for them struggling to build institutions in India is a waste of time. It would bring them into conflict with the "bureaucrat" academics who wield the power to keep them happy. The "good" academics help the "bureaucrat" academics to keep the independent academics in check. The "foreign" tag of the former can always be invoked to tell the independent academic that they are lacking in talent and therefore, do not deserve better appointment or promotions, etc. Independent academics who do not follow western norms cannot, by definition, be "good" enough and therefore, can be put down. In contrast, the "bureaucrat" academics can always get their favourites appointed through fixing a suitable selection committee and invoking the difficulty of doing good research in India.

In brief, the association of academics with those in power, official committees, funding agencies, contracts and projects granting agencies has often led to compromises with academic independence. Usually, a conflict of interest arises between the academic job and the association with outside agencies. To begin with, the conflict may be minor or of a subtle form but as time goes by it takes on more ominous forms. The academics get coloured by self interest and often change their opinions for non-academic reasons. They don the veil of being "reasonable". The independent academic category is usually miniscule in most institutions since it is squeezed from both sides and many of them give up sooner or later and join the "bureaucrat" academic. Thus, there are at least as many leaving it as joining its ranks.

It is easy to be a "bureaucrat" academic since the training during student days is not to question and the experience from the start of the working career is that it is better to be subservient to authorities whether inside or outside the institution. The incentive system is loud and clear. Who is considered to be a success in the system — the one who occupies a position of authority — not one who is academically sound? So, who becomes a VC or a Director or a Committee member, etc. becomes important? Enormous effort is wasted by academics trying to get quick promotions, etc., and seeking that rather than excellence becomes an end in itself. Instead of the content, numbers count — the number of books, papers, conferences attended and so on. Such bureaucratic norms are adopted by the "bureaucrat" academics to help themselves and their favoured ones. The "independent" academic with a conscience is unable to play these games and often gets penalised for this.

Academics celebrate the elevation of their colleagues to government or bureaucratic positions but hardly take pride in those who remain academics and refuse to join these positions. The latter is considered to be a subordinate position. When academics themselves do not consider success in academic terms why would outsiders do so? The various committees and commissions

that have suggested reforms have hardly recognised any of this because they are themselves peopled by the "bureaucrat" or the "good" academics who do not look at the real infirmities of the system which they themselves create. Given their own position in the system they only help strengthen the hold of the establishment and can only suggest more bureaucratisation and / or monetary incentivisation.

The hope for building dynamism in society and academic institutions rests on the "independent academics" who challenge the domination of the "bureaucrat" and the "good" academic, neither of whom is interested in building an Indian understanding of the Indian situation. But, they are harassed till they become ineffective or they are marginalised so they wield little clout to reform the system. Considering all this, few are left to take a stand on issues and this sets back the possibility of society breaking out of its disruption. In brief, either academics are power seekers indulging in sycophancy of those in power or frustrated and alienated or indifferent to the institution as long as they are able to get their way to link up abroad. In fact, Macaulay's education policy has been both durable and successful since it did not want Indian higher education to produce the "independent" academic and this continues six decades after independence.

When the field of education, which is peopled by the most highly qualified in society faces a deficit of creativity and originality and is unable to resolve its problems then what can one expect from other fields and institutions of society. All this reflects in the nation's lack of will to do better.

4.2.2 Notion of Autonomy and Accountability in Higher Education

The above analysis, points to the need for autonomy in institutions of higher learning. Unfortunately, the leadership thinks that this would be the license to not work and has tried to impose curbs, which curtail autonomy by setting up mechanical criterion. It is always argued that academic community has to be made accountable. But the question remains — accountable to whom and over what time frame? Typically, the bureaucracy thinks of accountability as in an office to the boss. This would not do in academic institutions where dissent is the essence.

All institutions / structures in society have to be accountable to society itself. And, especially those structures that receive state support, which basically means the people's money. In the case of higher education, in public institutions, the state is often funding almost the full expenditure. Hence, society has an even greater right to demand accountability. Even though privatisation has reduced the share of public funding, the need for accountability is no less. Even private sector institutions have to be accountable. In fact, accountability in higher education is crucial for its proper functioning.

Kumar (1989c) argues that accountability and autonomy are inter-linked and not separate issues as is often made out. Further, it is argued that accountability of academia has to be to the long-term interest of society rather than the immediate or short run. In principle, academia is the only social group that can play this role. The current political and bureaucratic class, businessmen, entertainers and so on cannot do so since their concerns are mostly immediate and short run, linked to their power and incomes. Academia has to understand why the rest of society is in this state of mind and evolve a way of moulding / harmonising them with the long-run national interest.

In the long run, one has to think of equity, social justice, ending alienation of people from society, destruction of the environment, enhancing dynamism and enabling people to lead a happy and fulfilling life. Neither the market nor the state can provide the benchmarks for these concerns. Thus, there is a need for an agency that can be independent of both and will not be trapped in the binary terms of "state or the market". Academia, autonomous of both these groups, can be the only group that can take an independent stance. Since new ideas in uncharted areas need to be generated, only thinkers can do so and academics have to play a large role in this.

Thus, autonomy implies that academia has to be independent of the state as well as money power and not subject to their constraints. Only then can academia think of society's long-term interest and that is what it has to be accountable to — in defining it and working towards it. Thus, it is autonomy in the above sense that can enable accountability of academics to be understood. Without the former the latter is not feasible in a systemic sense. Autonomy has to be at all the levels of the academia — of the institutions from the social structures of power, of the departments in the institutions and of the individual academics in the departments.

Bureaucrats associate autonomy with irresponsibility. It is argued that teachers would not teach, they would not do research if left to their own volition — they would only have a good time. In the marketisation framework, since everyone is supposed to be homo economicus, it is implicitly assumed that profit maximising individuals only maximise leisure and since work is boring and drudgery they would minimise it. Thus, without checks and monitoring, they would shirk work. It is concluded that only reward (monetary) and punishment works, so a system of bureaucratic control with promotions is needed for academia. In this framework, shirking work is rational, so a penalty would minimise shirking while a reward would make them maximise the work they do. This formulation misses the point that work of an academic may be enjoyable unlike in the factory or the office.

This framework also completely misses the point that a homo-economicus can make do with minimum of work to fulfil any mechanical criterion set up. As pointed out earlier, the work of an academic requires

commitment and if that is missing then one can beat the system. Further, a creative person works largely for reasons other than monetary reward. For the truly creative, creativity and recognition are often the biggest rewards. This is not to argue that in today's marketised systems, many creative people do not work for money — they are also motivated by that. However, if they received less money would they become less creative? Perhaps not, since they enjoy creativity. Creative people are also easily deterred and disturbed because of their sensitivity. For instance, when they feel oppressed by lack of autonomy they react and it affects the quality of their work.

This is not to say that creativity in the world has not increased over time during the era of marketisation. Is there a contradiction? Not really, because a bulk of the new knowledge is coming from the advanced countries where the academia enjoys considerable autonomy even though it is being slowly eroded. Further, increased creativity is also the result of the increase in higher education globally with the best from the developing world being siphoned off to the advanced countries. Finally, the world over freedoms have expanded (amongst women, Dalits and so on) so that many have found the avenues of expressing themselves which they did not have earlier. The argument is that if autonomy is built into the systems, creativity would increase many fold.

Society needs to promote a framework of creativity, which is linked to commitment and autonomy. If this is done, academics in India could generate much greater dynamism than at present. Why this may not be obvious at first glance is because of the confusion between "what is" and "what could be". Bureaucrats extrapolate mechanically from the present structures and behaviours into the radically different structures that autonomy would require. However, as with all alternatives, one has to think of what the human behaviour could be in a changed structure, which would bring about a changed thinking pattern. It is akin to extrapolating from a feudal to a capitalist framework and expecting that even in a democratic framework people would remain feudal in thought. Of course, it is true that in the transition, there are multiple manifestations but over time they change to a more pure form suited to the changed structure. So, shirkers would be there but they would have to be accepted as a necessary cost of the shift to the far more dynamic system that one can bring about with autonomy and accountability as defined here (Kumar, 1989c).

5. Financing of Education, Especially Higher Education

Given how crucial education is for the nation, how should it be financed? Should individuals bear the cost or the state should intervene and finance it? After 1991, with growing marketisation, increasingly the nation has opted for privatisation of education. As shown in Table 11.5, there has been a mas-

sive expansion in the number of private institutions (and enrollment). Even public institutions have started "paying" professional courses, like, management, journalism, etc., where the fees are kept high to generate resources. Foreign students are being charged high fees and a quota introduced for NRIs so that they can get admission by paying higher fees. The IITs and IIMs have raised fees exorbitantly in the last ten years to charge close to what the market can bear. This not only encourages the private sector institutions to charge even higher fees but also justifies their charging such fees.

Increasingly, families are having to bear the cost of education of their children. Recent studies have found that out of 39 universities studied, more than half a dozen raised fees in such a way that they could generate more than 50% of the total recurring income of the respective universities from student fees. In late 1990s, another 13 universities could generate more than 20% from the students. However, for central universities, it would be less than 10%. In the case of colleges, private-aided and private-unaided colleges have been found to generate 38% and 100% respectively, of the total recurring income from student fees (*see* Tables 11.6 and 11.7, CABE, 2005 and Tilak, 2004).

Table 11.6

Cost Recovery from Students in Higher Education

College Types	*Cost Recovery (%)*
Government Colleges	19%
Private-Aided Colleges	38%
Private- Unaided Colleges	100%
Overall	5%

(Source: CABE (2005), pp. 33-34)

Table 11.7

Expenditures on Education (Proposed and in the Union Budget)

National Knowledge Commission (NKC) Report Proposed (2007)		*Expenditure as shown in Union Budget 2009-10*	
Types of Education	*% of GDP*	*Types of Education*	*Share in Ed. Budget*
Elementary Education	3%	Primary	53%
Secondary Education	1.5%	Secondary Education	29%
Higher secondary Education	1.5%	University/Higher Education	11%
		Technical Education	4%
Aggregate (Total)	6%	Language/General / Physical	3%

(Sources: National Knowledge Commission, 2007, and Union Budget 2009-10. Expenditure Budget II.)

Deemed and private universities have come up in large numbers and it is said that money changes hands to obtain permissions. At one stage, Chattisgarh, one of the most backward states in the country, had the largest number of universities in India and many of them were no more than one-room operations. Sensing the opportunities, either politicians are themselves behind these institutions (as in the case of Maharashtra) or are in partnership with businessmen. Their advantage is that they are able to get permissions easily, like for transfer of land. This is also the reason that the resistance to these very often sub-standard institutions is weak. Politicians from all parties tend to be involved, so, no political movement builds up against such gross irregularities. What else can be expected from a disrupted society and its political class that does not mind weakening the education system for their narrow ends of making profits from this noble profession?

In many of the new institutions, there is hardly any infrastructure and faculty is mostly of poor standard so that teaching is often indifferent. Those denied admission in the good public institutions are given admission at these institutions at a high cost. The attraction of many of these institutions to parents in spite of poor education is that in a tight job market they promise their students jobs. The political and business connections of the owners of these institutions come in handy for this purpose. Further, most businesses do not require high levels of skills but smart individuals who would do their bidding.

Public sector institutions have been systematically run down since 1991 perhaps so that the private sector can come up. Their funding has been curtailed on the plea of shortage of resources with the state, teaching positions have often not been allowed to be filled so that they have had to depend on poor quality temporary or contract teachers. The "faculty salaries" have lagged far behind those in the market for comparable jobs. For instance, many corporate jobs pay at the start far more than what a professor in a public university retires at. Thus, a large number of the best students leave education after getting their degrees rather than pursue research. The perverse market signals have devalued research even more than in the pre-1991 period. The result has been a dearth of talent to recruit from, which can only run down education over the long-term. Comparisons are often made with the advanced countries but their conditions are not comparable to those prevailing in a poor country, like, India which is also struggling with a disrupted consciousness.

The private sector working for a profit cannot provide cheap education, which is needed by the vast majority who are poor. If according to the NSS data for 2004-05, 96% of the population spends less than ₹ 48 per day or as a family spends less than ₹ 7,200 per month, how much can they spend on their two or three children for their school education and how much can they save to provide them with expensive higher education. Most of the people in

this category would have to depend on public education of some kind or as data shows, their children quickly drop out even from the public sector educational institutions. Table 11.3 shows how sharply enrollment drops as we move to higher classes. The situation can only worsen for this category of people as costs rise with privatisation.

The way out is that financing may be provided in diverse ways, like the traditional way of providing scholarships for the meritorious poor students. When considering financing of education in the private sector, one has to think both, of how the institutions would raise money and how the students would finance their education. Chattopadhyay (2007) presents the various possible mechanisms to finance higher education through private sources that are currently under various stages of consideration (*see* Appendix 3).

In brief, it is not true that the nation lacks the resources for good quality education. Afterall it is spending, whether through the private sector or the public sector. The only issue is how are they to be spent — privately or publicly? Further, as argued in Chapter VIII, huge amounts of resources are wasted due to the black economy, which can potentially be tapped.

5.1 Valuation of Education and the Notion of Human Capital

Associated with privatisation is the problem of social valuation of education, its conflict with the private sector's valuation and that of the individual and the family. The private sector works for a profit and charges a price commensurate with that. This may be at odds with what society may need. Further, since education is a long-term affair, its valuation cannot be like that of other goods. On the one hand, there tend to be monopoly / oligopoly elements in this field, which potentially lead to high prices, yielding excessive profits. This is especially the case because there is a scarcity of the so-called desirable jobs. On the other hand, the consumers, the families, do not have a good idea of what they are getting into, while they understand that a good education for children would help them to do well in life, in a fast changing world it is not clear what this would mean. So, they are uncertain of the price they should pay.

The principal difficulty lies in defining the benefits of education (*see* Mazumdar, 1999) and putting numbers to them since it is more than just an economic question. Under the neo-classical framework of analysis, life is seen in economic terms alone and what cannot be so expressed is ignored. Thus, often the most important aspects get left out of economic analysis. For instance, in economic terms, people are seen as being human capital — a bundle of skills useful for production. That human beings have a special position in production is negated. There can be no society or production without them and that capital is created by society and land also has value due to human habitation, are facts that are completely ignored. Converting people

and society to homo-economicus is an error, which is compounded when everything is sought to be valued in purely economic terms and when it is suggested that this is the only thing that matters. The notion of social capital may be wider than human capital because it acknowledges the existence of society but it also suffers from the same infirmities.

Once, it is accepted that human beings are like capital, the notion of private and public returns becomes a natural corollary and valuation can follow the principal used to value capital. It then follows that education enhances productivity, this increases the value of the individual and this can be said to be the contribution of education. It then has a purely economic dimension. Similarly, education is referred to as human resource development because people are thought of as natural resources, which need development; another mechanistic way of not treating people as people. In brief, this narrow view of education misses the richness and essence of education which has a civilisational dimension. No wonder in IIMs students are trained to become automations working 12 to 14 hours a day without the time to enjoy the high salaries they get — machines are idle when switched off so must be run for as long as they can.

5.2 Public or Private Provision of Education

Pricing of education is complex since very importantly it involves quality, which cannot be quantified. Greater spending on infrastructure and facilities can improve quality but not without the necessary teaching and research ethos. So, there can be high-cost education without quality. Educational institutions are not about buildings and facilities but the people in it. Further, how to value what education does for society is not clear. There is a positive externality associated with it so that the more there is of it, the better it is for society. Clearly, subsidising it to expand its spread is desirable. On the contrary, without subsidy, its cost would be high and it would have a limited spread, especially in a poor society and this would be socially sub-optimal. If equity in society is considered desirable (Chapter X) access to high quality education for all children is a pre-requisite. How does one place a number on equity in society? This again has to be treated as an externality. Similarly, it is hard to value "inclusion" and democratisation in society, which education may bring about. Private sector in education is unlikely to work for these goals — they would only be incidental to its main goal of profit maximisation.

In the literature, goods are characterised as private or public or quasi-public or as merit good. Confusion arises in the literature since a public good is often stated to be non-rival in consumption and non-excludable and in such a case, the markets are said to fail since they cannot provide the optimal amount of it. When consumption of a good has associated externalities, it is

also characterised as a public good therefore should ideally be provided by the government. So, is education a public good that should be provided by the government? Any educational institution has a limited number of seats, therefore, there is rivalry in consumption and there is excludability. That is, if one gets a seat then someone else will not get it. So, should education be taken to be a public good to be provided by government?

Goods that are exclusive in consumption can be pure public goods if there are associated externalities as is the case with education. Further, because the social valuation of education is typically higher than the individual's valuation, it is a merit good and that again calls for government intervention in the market. So, some argue that it is a mixed good or a quasi-public good. However, in India, the government's Subsidy Report (GOI, 1997) confused matters by categorising higher education as a non-merit good and school education and research and development as merit goods. In its second report in 2002, due to widespread criticism, higher education was also accepted as a merit good but of a lower category.

Higher education has large initial set-up costs — requiring buildings, equipment, faculty and so on, so that there are decreasing costs up to the point where capacity gets saturated. In such cases, there is a tendency for the emergence of natural monopolies. The private sector, in such a situation, would operate at the profit maximising point charging a high monopolistic price, thereby limiting the provision of education to a few. They charge high fees in general, especially in those areas where there is a scarcity of skills, like in professional courses. Further, since classical subjects, like philosophy, history or physics, do not lend themselves to profit making, they are marginalised in the private institutions.

In general, in neo-classical economics, subsidies are considered to be undesirable. They are seen to be wasteful current expenditures resulting in higher budgetary deficit and distorting market prices. However, in the case of decreasing costs in production they play a positive role in achieving efficiency. Thus, subsidisation of education cannot be seen to be undesirable. If the private sector runs educational institutions and it is subsidised there would be the need for a regulatory authority to do the costing to fix a price, which would give the investor a reasonable return. However, this is fraught with difficulties because the private sector may indulge in "gold plating" to inflate costs to earn a higher profit (Averch and Johnson, 1962) and this would make education high-cost.

According to some analysts, the return on school education is greater than on higher education, so that the state should focus on the former and leave the latter to the private sector. But this argument is flawed. Why should one posit a trade-off between higher and lower levels of education? These are not the only options in a budget, that is, money can be spent on any number of alter-

natives. Finally, there is nothing to say that the expenditure allotted to education needs to be limited and cannot be increased. These issues have to be decided by policy — what is the priority of society. The real trade-off is between something essential (education) and inessentials (social waste). The latter is visible all around in society, both in the public and the private sectors. If this is reduced, enough resources could be freed for education without the output declining. In fact, it would increase with more education. Another instance is the huge subsidies the corporate sector gets in the form of tax expenditures (₹ 5 lakh crore in 2009-10). Thus, one could pose a trade-off between tax expenditures and expenditures on education.

The bigger question is whether society is short of resources for financing education. This is linked to the priority that society places on education. The choice depends on what kind of society the country wants and what role education would play in it. For instance, if our goal is independence of thought, equity, creativity and social well-being in the long run, then we would go in for high quality education at all levels and we would find the resources for it. The issue of social returns would also automatically get resolved.

Public provision of education raises the issue of financing. One of the arguments for privatisation is that the government has a huge fiscal deficit, so it is short of resources and society should draw resources from whoever wishes to spend them — corporate sector, foreign investments or charitable institutions.

The alternative, the private sector guided purely by the profit motive has many limitations as discussed above. For instance, the limiting of funding of classical subjects — say, pure sciences, philosophy, anthropology or political science would do disservice to society. These disciplines are critical for a well-rounded education system and for the long-term health of a country. The private sector suggests that these soft subjects may be left to the public sector, while the private sector may be allowed to run the lucrative courses (GOI, 2007a) and increasingly this is what is happening in India. In the public sector institutions where paying courses have been launched, decision-making has tilted in their favour. Indian institutions of higher learning in any case tend to lack inter-disciplinarity and what is proposed would further erode the possibility of the wider inter–disciplinarity, which is an essential ingredient of new ideas and university education.

The point is that it is not just the total expenditure on education but how it is spent that is important. Private sector expenditure on education is also from the pool of national resources. But, here what is being argued is that private sector expenditure would not lead to the fulfilment of higher social goals, so it would be inefficient in the wider sense even if it can be shown to be efficient in a narrower sense.

The growing infirmities in the public education system in India are all too apparent. But, this is the trap — there are infirmities in both the public and the private provisions of education in India and both impose costs on society. The issue is — which would be relatively less and what kind of costs would society be willing to bear? The above discussion suggests that in the Indian context it is the public sector that is likely to lead to better outcomes than the private sector.

As already argued the content of education is important and that is affected by where funds come from. With growing commercialisation, the orientation and the content of education are changing in an undesirable direction. For instance, preference is being given to short run, market-determined courses rather than those with long-term impact. Further, the private sector uses funding of education to project an image of social responsibility — to soften its own harsh and greedy image. Missionaries of various denominations use education to project their religion and its superiority and in subtle ways sow a divide with other people following other religious beliefs. Thus, it is ideal to have state funding for education and build in public checks and balances so that no party in power can have its own agenda imposed on education. It is more difficult to build in checks and balances for private sector.

In brief, whether it is the private or the public sector that spends the resources, these are national resources. So, the issue is which of the two would serve the national purpose better. This is where the question of national will comes in. After independence, it is the public sector that dominated the education sector and led to its expansion as well as the creation of some institutions of excellence. But, it is the disruption in society that prevented it from playing an even more important role in providing an independent path of development, which could have overcome the disruption the nation has been afflicted with. Autonomy and accountability are crucial for enabling education to serve its larger purpose and the private sector cannot cater to them. Finally, given the backlog of education (both in terms of quality and quantity) and risks involved, the public sector has a crucial role to play in India. Society may have to be prepared to spend more than 6% of GDP if it wishes to evolve an independent path of development.

6. Overview Post-Independence Developments in Education

The above discussion points to the challenges confronting education and knowledge generation in independent India and traces its roots to the colonial disruption in society. When challenges are as large and as all–pervasive as pointed to, the problem has to be treated as fundamental and one that cannot be resolved by piecemeal thinking or copying from others.

Various commissions and committees set up to reform education have not been able to give a clear direction to build an independent system, since they have mostly done patchwork based on the assumption that all they needed to do was to replicate the systems in the advanced countries (notion of modernity). They did not attempt a basic rethink of the peculiarly Indian problems that are linked to disruption of society over a long period of time. The reports did not critically assess the shortcomings of the Indian education systems. The attempts to copy the Western system in India is making the education system both elitist and expensive, thereby marginalising a large number of people. In effect, Macaulay still rules the minds of the Indian rulers and that is the real poverty confronting us.

For instance, the idea of creating UGC was borrowed from Britain. But institutions cannot simply be copied since the political, social and cultural milieu are important for their proper functioning. It was hardly discussed whether UGC in India could curtail the autonomy of Indian universities or enhance it? In its functioning, it has become a source of interference and curtailment of the autonomy of universities in the name of quality and standardisation. Further, due to its shortcomings, there has been a proliferation of funding agencies — ICSSR, DST, etc. in the UGC mould. These funding agencies are dominated by the "bureaucrat" academics who use them as fiefdoms and places of patronage for themselves and their mentors in the political system. Learning and knowledge generation have been secondary for these institutions.

It is pointed out that education is not so much about costs as about a perspective. If the perspective was correct, we would have spent more resources on it rather than using the argument of shortage of resources to hide our inadequacies. The principal resource required for education is human and we have plenty of it but it is not properly utilised and is lacking in motivation and training. Since education is far more about commitment than about work mechanically done — number of classes held, hours spent in the institution, etc. are important but without commitment they become meaningless. This is best done in a liberal framework where there is voluntariness, rather than in a regimented framework, which undermines creativity in the long run.

Due to the lack of commitment to the nation and its future, school education has not been given its rightful place. Compared to the resources wasted in society, the resources required for school education are miniscule. Thus, the problem is not lack of resources but our lack of understanding of the national interest and commitment to it. Children, except of the elite, are largely neglected whether in terms of education or health and nutrition rather than being treated as the future citizens. These are but manifestations of disruption.

Disruption in society acts at various levels. The deepest of them is in the thought pattern and the belief systems of a nation and that is where the role of

an independent system of education is critical. A dependent system too, can make gains, like in the field of trade and software, but in the long run these do not offer a solution to the problems of trade or employment. Disruption is visible in the choice of medium of instruction which undermines creativity at a wider level even though exceptions are always there. The problem is aggravated by the incentive system which is promoting the English language.

Corruption in education system has grown with privatisation. There is capitation fee, leakage of examination papers, counterfeit degrees, fixing of marks, appointment of teachers for a payment, students forced to part with their fellowships to their supervisors and the recognition of sub-standard institutions by regulatory authorities, among others (*see* Kumar, 1999). Seeing the potential for making money, powerful people, politicians and businessmen have entered the field in a big way. They have corrupted the system in a big way. The corrosion in the system of education due to disruption has been compounded by corruption.

How can the content of an admittedly bad policy framework be changed? Why is it difficult to think of alternative education? The reason is that those at the helm of affairs and those who should provide the understanding are themselves victims of disruption in society and can only think of replicating what exists in the West. Those in education are as much victims of the disruption in thought as those outside it but their capacity to break out of the logjam is higher so the onus is on them to rectify the situation. For this, they have to stop being "derived intellectuals" and challenge the feudal mindset that exists in their institutions. While thinking of the alternatives it is easy to get confused and slip into the current modes of thinking. The inability to deal with these basic problems and to find a solution to them is a reflection of the loss of value of ideas in society.

Today, in the midst of our confusion, education is being rapidly privatised — partly because of the pressure of the West and partly because we have identified the problem incorrectly due to our disrupted thinking. Gandhi can be a possible starting point for a major overhaul of the Indian education system but the Indian ruling elite, rushing to join the international elite, is not interested in it. Its focus is external and not internal — the continuing impact of the colonial era thinking. Even Gandhi had to fight on all fronts and could not succeed in the immediate sense. Because of his clarity, he faltered less but did. Due to his prestige he carried the movement for indigenous thinking forward but could not attract enough people to think differently, either around himself or within the party he built. He was increasingly isolated by the tidal wave of the on-going disruption in society and we have not looked back since those days and continue to be happily swept off our feet like in a ballet.

7. S&T in India and Problems in Knowledge Generation

The above discussion points to the basic weakness of knowledge generation, the most dynamic aspect of society. In this context, Science and Technology (S&T) is the key to today's globalisation. Any nation that lags behind in this sphere gets dominated by others, so it is the most critical aspect of knowledge generation. Independent India tried to overcome the tremendous deficiencies in S&T it inherited from the colonial period. Not only was this seen in nationalistic terms as the need for an independent base but also as a means of modernisation to catch up with the West. However, here also due to disruption in social consciousness, the model adopted was based on copying (to catch up with the West) rather than independent development, which could cater to the needs of the majority of its people. However, India's achievements in S&T have been considerable compared to most developing countries even if inadequate.

7.1 Weaknesses since the British Period

India's weakness in Science and Technology was a result of the British view that Indians were not suited to doing modern science and technology (*see* Section 2 above).

Thus, in their almost two hundred years of colonial rule they paid little attention to developing teaching and much less research. There were few institutions teaching sciences at the time of independence and hardly any that were developing new technologies for Indian needs. Since production itself was setback during this period, there was little demand for technological development. In contrast, S&T advanced rapidly in the West during this period. As Arrow (1962) points out, there is learning in the process of production. Thus, at the time of independence, India lagged far behind the West in S&T and the gap has not closed after independence and our policies have to bear a large part of the blame for it (*see* Appendix 1).

Immediately after independence, for the sake of modernisation, many institutions of higher learning were set up (described in Chapter III) and by the 1980s, India had the third largest scientific and technical manpower in the world (after the USA and the USSR). India has made advances in modern technologies, like space exploration, nuclear energy, software and so on. However, contribution to major advances in S&T by India has remained negligible so that the country has remained largely dependent on import of technology. The recent controversy around the Indo-US nuclear deal shows our continued dependence on import of technology in this field where massive resources have been spent since independence.

Many Indians still use technology which is several centuries old and there has been little innovation / change in their lives. However, modern conveniences have spread rapidly even in rural areas. There have been some minor innovations all around but how do they compare with the rapid pace at which the world is pulling ahead? Is India innovating across the board or in bits and pieces and in fits and starts and, therefore, facing more and more challenges? Is this the reason the nation is unable to solve its national problems?

7.2 Technology as a Moving Frontier and India's Underdevelopment

It needs to be remembered that technology is a moving frontier. Today's advanced technology is tomorrow's intermediate technology and the day after's low technology. This is in the overall sense, since some components of any production in any field may require advanced technology but that may not make it a high technology product. For example, production of steel and coal was considered to be high technology in the 1950s but it is now intermediate technology and production of textiles was intermediate technology then, but is now considered to be low technology. Our current ability to produce steel and coal does not make us advanced in technology. There are components of steel or textiles production, which may use high technology, like computerised systems, but that does not qualify them for being called high technology.

Schumpeter (1954) suggested that a technology goes through the cycle of invention-innovation and imitation. Inventions result in production of new products or in substantial rise in productivity in production. Innovations take place with the absorption of technology and lead to further increase in productivity but at a slower pace. Imitation results in use of a mature technology through copying but can prepare the ground for advancing the technology to the next step. This hardly impacts productivity. Countries that have a poor R&D base mostly imitate technology. Those with a better base can innovate. Mostly it is the advanced countries with a strong R&D base that are involved in inventions (with exceptions).

Most modern technologies require a huge scale of investments (like aerospace or micro electronics), which most of the developing countries cannot afford to spend. Further, the risk of development of technology is huge so that world over, mostly, it is the state actors which enable the development of technology, either by themselves taking on the development of the technologies or reducing the risk by funding research. This is true for the developed nations and even more so for the developing countries where the firms are even smaller. Thus, in India most of the R&D expenditures are in the public sector (Table 11.8).

Table 11.8

R & D Expenditure by Private, Government and National Source in India (1990-1991 to 2000-2001)

Year	*Research and Development Expenditure (₹ Crore)*		
	Private Source	*Government Source*	*National*
1990-91	549.98 (13.8)	3,424.19	3,974.17
1991-92	636.94 (14.1)	3,875.87	4,512.81
1992-93	836.25 (16.7)	4,168.35	5004.6
1993-94	982.54 (16.2)	5,090.48	6,073.02
1994-95	1,318.87 (19.9)	5,303.57	6,622.44
1995-96	1,627.07 (21.7)	5,856.81	7,483.88
1996-97	2,330.75 (26.1)	6,582.86	8,913.61
1997-98	2,438.25 (23.0)	8,173.09	10,611.34
1998-99	2,790.41 (21.6)	10,111.13	12,901.54
1999-2000	3,365.38 (22.3)	11,724.84	15,090.22
2000-01	4,058.83 (23.0)	13,601.38	17,660.21

(Source: Research and Development in Industry 2000-01.)
Ministry of Science and Technology, Govt. of India.

Modern technologies depend on "learning by doing" (Arrow, 1962) and "learning by using". In the former, productivity rises as one gets more familiar with a technique. The latter is applicable to the case of complex technologies but for the actual users of the technology it is like a black box. They can only learn how to use the machine but not how to innovate on it since they know little of the technology embodied. Like, in the case of computers or aeroplanes, we use these products but cannot make them or innovate them because we are unable to absorb and develop these technologies.

The WTO regime, operational since 1995, has made technological upgradation more difficult for the developing nations because technology has become a property right. The Intellectual Property Rights and Patents regimes put into place under the WTO, require one to jump stages of technology. If one develops a technology that someone has already developed it is of little use since its use would be an infringement of the right of the one who developed it first. To jump stages of technology which a developing nation would have to do — to go from where it is to where the frontier of an advanced technology currently is — would require massive investment. Say, for the development of computer chips, to jump from the earliest 8088 chip to the current generation of chips may require many billions of dollars of

investment and would perhaps be larger than the education budget of most developing countries and definitely larger than their R&D budgets. Thus, even the rich European nations have been forced to develop advanced technologies jointly (like aerospace and defense) to compete with the USA (Kumar, 1988a).

India today is able to generate mostly intermediate and low technology and some high technology products. As already argued, use of high technology, like say PCs or commercial airliners, does not mean that we have the technology. We largely assemble the computers or the aircrafts we make. We need to have the "know-how" and the "know-why" to be able to manufacture products and this is lacking in the case of high technology and most countries that have it are not willing to part with it. It is also denied to a country (like India) under the pretext of dual use technologies (civilian and defence use). If a country possesses some advanced technologies that it has developed it can leverage it for other technologies but that is not the case with India.

Some of the developing countries that have developed technological capabilities in the post-Second World War period have had access to intermediate and advanced technology because of the strategic alliance they had with one of the other super power, which was willing to give them this technology to enable them to develop it. However, that country needs the capacity to absorb the technology given and innovate on it. South Korea is a case in point. China also had an advantage in this, first, the Soviet Union, up to the late 1950s and from the mid-1970s the West after its strategic alliance forged to encircle the Soviets. However, China on its own had also developed significant capacity to absorb and develop the technologies they obtained.

In the present context of technology development in the world, perhaps most of what were the obvious and simple things, have been invented, so it is not easy for individuals to come up with inventions or new technologies. Team work and large investments in laboratories and equipment are needed, which is feasible either for the state (its laboratories or its institutions of higher learning) or businesses. Inventions and discoveries based on new knowledge largely involve high technology. Innovations also require high or intermediate technology but are difficult with low technologies. Imitation can take place with both intermediate and low technology and that is where most of Indian industry stands. That is why, in India, we are hardly making any great discoveries or inventions and even innovations are of a low order, and mostly we imitate. As Table 11.9 shows, Indian's contribution to papers published (1989 to 1998) is mostly minuscule.

Table 11.9

Subject Areawise Number of Papers Published from India and World (During 1989 to 1998)

Subject Area	*Number of Papers from*		*India's Contribution to World Papers (Percentage)*
	India	*World*	
Agriculture	1,09,093	15,03,061	7.2
Biological Sciences	89,574	53,29,314	1.7
Chemical Sciences	1,26,349	60,10,154	2.1
Earth Sciences	11,239	5,61,318	2.0
Engineering	36,027	18,70,103	1.9
Mathematics	15,906	8,49,692	1.9
Medical Sciences	43,758	36,57,821	1.2
Physical Sciences	54,836	27,85,116	2.0
Total	4,86,782	2,25,66,579	2.2

(Source: Research and Development Statistics 1996-97, Ministry of Science and Technology, Govt. of India.)

7.3 Innovation in India: Extent and Content

Some people (nationalists in a narrow sense) may be hurt by the argument that India is hardly innovating and assert the opposite. Some point to "Jugad" as an example of innovation. Reference is to a diesel engine used to drive a vehicle for transportation. It is popular in rural areas where these diesel engines are also used for pumping water to irrigate fields. The contraption is almost like a tractor with little concern for pollution, efficiency, noise or safety of the passengers. Such vehicles perhaps ran in the advanced countries more than a hundred years back. As such, even if in the Indian context it appears to be novel, it is not even imitation of the current level of automobile technology, it is actually a regression, much less innovation or invention.

The view seems to be that if someone operating at a low level of technology (say, bullock carts) begins to use a better technology (say, Jugad) then it is innovation. But this is an erroneous argument since this may be innovation for those working at low levels of technology, but in the world of technology, given the current available technology, it is not even imitation. In brief, one cannot judge whether innovation is occurring in a society on the basis of its own level of technology but this judgement has to be based on a comparison with the current level of world technology.

Many modern technologies are highly polluting and need to be accompanied by other technologies to take care of the pollution. Thus, there has to be a complete package for modern technologies. For instance, use of electronic equipment also requires the technology for its safe disposal. Use of automo-

biles requires better fuels and catalytic converters. Unfortunately, the developing world, to save costs, is copying some aspects of technology without the accompanying other technologies to mitigate the ill-effects. In this sense, it is not quite imitation.

Further, many of the low and traditional technologies are themselves polluting (say, leather processing or pottery or mining) but it mattered little in underdeveloped societies where the scale of production was low so that the total pollution was also low. However, as the scale of production expanded with exports and consumerism, use of the low technologies led to a disproportionate increase in pollution, which often went beyond the carrying capacity of the rivers, air, etc. Innumerable rivers, including the Ganges at Kanpur have suffered severe damage. Similarly, traditional potters burning fire wood in their kilns heavily pollute the air in their neighbourhood. Much more efficient technologies to keep the water and the air clean are simultaneously required to protect the environment.

Technology cannot be mechanically copied since then one does not learn from it and without that one cannot innovate and then the next generation technology also has to be imported. For instance, the automobile technology obtained in the 1950s remained with us without much innovation till the mid–1980s. This may partially be attributed to a stagnant market with a peak production in 1983 of 35,000 cars. The technology got upgraded when Suzuki brought in technology for Maruti in 1983. Even now, we mostly borrow automobile technology from abroad even though the scale of production has gone up by a factor of 300 in the last 25 years. Thus, even for this intermediate technology we still largely depend on imported technology. The same has happened in the case of fertiliser technology where we imported the 300 tonnes per day plant then the 600 tonnes, 900 tonnes and finally the 1,250 tonnes per day plants. In the case of power generators, we imported the technology for 110 Mw, then the 220 Mw and later the 500 Mw.

In the case of strategic technologies, like nuclear, space and military hardware, we have poured in massive resources and still we are dependent on imports because of the inability to become self-sufficient. This makes us open to the conditionalities of the advanced countries. Each generation of satellites has many imported components while fighter aircrafts and tanks of newer generations have had to be imported. India's efforts have only partially borne fruit because of our inability to develop the latest technologies. Even aluminum caskets for soldiers (we got to know because of the alleged coffin scam) had to be imported.

7.4 Mismatch between Vintages of Capital and Labour

All capital is labelled by its vintage, namely the technology it incorporates. If it is made in 1950, it would be of labelled as 1950 vintage since it is supposed

to incorporate the technology available till then. If it is of 1980 vintage, it would be having technology available till that year, etc. Similarly, labour is also of a given vintage but here there is flexibility. People can learn and advance their vintage. This is where education is critical. Higher the level of education and the better it is, the greater the individual's capacity to adjust to newer technologies and the vintage of the machines. However, the less dynamic an individual, the less she would be able to adapt to changes and more rigid the vintage of labour. In this sense, literacy should stand for the capacity of the individual to understand and adapt to the current technology. If one is able to read and write but not able to absorb current technology, as is the case with many Indians today, then one should not call them literate.

Labour of an earlier vintage that is unable to work with technologies of the current vintage become less productive and this results in inefficiency in society. For instance, farmers from an earlier generation could not properly work with green revolution technology since they did not understand the need for different kinds of inputs required by this technology. The traditional technology had its own inputs and the farmers had developed a sense of what proportions to use. With the green revolution and much greater exploitation of land, the soil had to be replenished with various micro nutrients but this was not the usual practice, so the soils' productivity got affected. For instance, if N, P and K were to be used in the ratio of 4:1:1, but if the farmer did not know the difference between them (he could only think of manure as being of one kind only) and used whichever was cheaper, then the soil was bound to get degraded and lead to reduced productivity. These and many other practices that were necessary did not get adopted for long periods so that Indian farmers with little training could not even achieve a fraction of the potential productivity that could have been achieved.

Similarly, the use of tractors and threshers, etc. led to many accidents on the farms because the proper use and maintenance of machines was not known to the traditional farmers and even the drivers they employed. Most of the users of these machines were not aware of the precautions to be observed. Similarly, in the cities, first generation drivers on the roads have little idea of the road rules so that India has one of the highest rates of accidents and deaths in the world. Automobile mechanics used their hearing to adjust an engine to properly tune it. Now with electronic fuel injection, one needs to be able to work with an electronic machine to tune the engine even if one can tell from the sound whether it is firing properly or not. Thus, with the new vintage of cars, machines are needed to tune the engine, align the wheels and balance them. Traditional mechanics are at a disadvantage. Similarly, many earlier generation typists have not been able to shift to word processing or use the computer like a typewriter without word processing.

India's handicrafts are exported in a big way but our skilled craftsmen are unable to adjust to the rapidly changing market conditions and produce newer things. They have been used to producing the traditional things in traditional ways. Designers come from abroad to instruct what the new fashions are and therefore, what new products need to be made. Thus, craftsmen turn into mechanical copiers of the designs and lose their dynamism.

In fact, in India, much of life has changed — from the big things to small ones — in the last two hundred years but mostly to a western pattern. The use of "datoon" has been replaced by the tooth paste and brush. The way we communicate or travel or live in homes, etc. have been influenced by technology that has come from the West with little contribution from the developing world. The culture, the link language, the clothes we wear and the sports that are popular have either originated in the West or are increasingly influenced by it. There is a loss of dynamism in the country and we have become copiers; even the dynamic Bollywood often copies film themes and music. The modern architecture we use is often most inappropriate to our weather or the surroundings or our level of technology because often it is a straight copy of the current trends in the West with its different culture, environment and level of technology. Often gleaming buildings quickly become shabby and require heavy expenditures on energy, etc. These are some of the problems of copying and mismatch between the vintages of labour when there is mechanical import of capital from the West. Choice of technology appropriate to the stage of a country's development is important. The mismatch of technology and stage of development causes disruption in other ways also. For instance, as discussed in Chapter V, Section 1.3.1 it results in unemployment and related social consequences.

7.5 Disadvantage of a Late Start

According to the literature, there is a "disadvantage of an early start". This is because existing old capital with its earlier vintage technology may slow down the adoption of new technologies. Is that true for a nation also? The advantage of an early start is that the nation can keep upgrading its technology in a holistic way and may not have to depend on other nations. The advantage of a late start may be that the country does not have to waste time and resources in developing available technologies. Further, importation of capital could mean that most of its plant and equipment could be of the later vintages so much more productive compared to those countries, which started earlier and have considerable amount of old vintage equipment. The disadvantage of a late start is that the country lags behind in technology and has to catch up. It may also not have the capacity to absorb the advanced technology it may import or it may simply not be able to get the advanced technology.

Thus, advantage of a late start requires that (a) technology be freely available, and (b) the country has the capacity to absorb and develop it. Otherwise, it would have to repeatedly import newer generations of technology as these are developed and may have to pay heavily for it in financial and political terms — as has been true in the case of India. Continued importation also builds dependence on the advanced countries. An associated disadvantage is that skipping stages of technology development leads to accumulation of social problems at an accelerated rate. As pointed out earlier, there would be growing unemployment due to a rise in the capital labour ratio.

Technology brings with it a range of social changes. For instance, with faster travel and rapid communication, the world is becoming a global village and influences are transmitted faster from one place to the other. This has resulted in rapid changes in expectations from life and how things are done has changed dramatically. The way entertainment has changed, culture is affected in a big way so that there is a yawning generation gap with attendant problems. Further, before society has had a chance to adjust to one set of new technologies another comes, which brings about fresh changes so that society lags behind and is not able to deal with the changes rapidly enough. It is being swept away without an idea of whether it is for the good or bad in the long run. Consumerism has grown with consequent environmental problems and in spite of the severe warnings from nature we have not figured out a way of dealing with it.

Take for instance, the coming of TV to India. It came when literacy was low, in sharp contrast to what happened in the advanced countries where it came when the reading habit had developed so that it did not get dented even after the advent of TV and later the Internet. In India, the vast majority was illiterate or hardly literate when TV started expanding rapidly in the 1970s. The reading habit had hardly developed or was rudimentary, so it became a casualty. This is especially so since TV has focused mostly on entertainment of one kind or the other and that is how it is mostly used in homes and this takes away from the time that could have been spent on reading and acquiring deeper knowledge.

7.6 Factors Affecting R&D in India

In India's case, the disadvantage of a late start has been aggravated by strategic factors. The West gave little technology and whatever came from it was at a high price. For instance, the IITs set up with its help became the conduits for talent to migrate to the advanced countries. The Soviet block helped build some R&D capability in the public sector and defence but this was not suited to the people's needs even if it helped the Indian ruling classes to modernise. The country had little capability to absorb it and to

further develop it, leading to repeated import of technology. Further, technology absorption was undermined by a lack of national will. Widespread corruption in decision making resulted in indifference towards technology and to policy failure. The presence of MNCs in the economy led to subtle ways in which the efforts of Indian industry and government got undermined. For instance, they had access to technology from their parent company but the Indian companies had to buy technology at a high price from others or if the Indian company wished to develop technology, they had to jump several stages which was too expensive to attempt (*see* Table 11.10). Further, the MNCs could attract critical personnel from Indian companies or use political pressure and bribe to subvert policy.

India has created a massive R&D infrastructure after independence (*see* Tables 11.11 to 11.16) with the public sector at the forefront. The private sector has been a laggard in this regard because it has not been willing to take the risk involved. The efforts have led to the absorption of simple technologies but it has not yet helped Indians to come to grips with advanced technologies. The institutional structure created is wholly inadequate to the needs of a large nation (*see* Graphs 11.1 and 11.2). Worse, quality of research has mostly been indifferent so that major breakthroughs have not come and we have remained at the level of intermediate and low technologies. This has also been impacted by the poor training of a large number of our scientific and technological manpower and the institutional structure that undermines creativity of individuals due to the feudal attitudes of those at the helm. These factors result in the loss of institutional dynamism. It seems that we do not know how to create the environment for R&D so that there is both demoralisation amongst those who have creativity and the collective is unable to achieve its potential.

Many institutions that have been created (CSIR, IIAS and so on) have never achieved their potential due to the feudal / bureaucratic attitudes amongst its top brass who seem to be interested more in control to build empires by granting favours rather than in encouraging creativity. Research often becomes incidental to keeping the bosses happy. Often those heading these institutions have a bureaucratic mindset and do not understand how to build a research environment. There is an internalisation of Macaulay's ideas on education in the colonies — clerks are more important than thinkers. The habit of "copying from the West" has been imbibed by our researchers and has become stronger than in Macaulay's days because of the implicit acceptance of both our inferiority and the success of the West. For instance, innumerable committees go West to study a problem and on return advise the nation to wholesale copy what exists there.

Table 11.10

Per Capita R&D Expenditure and Per Capita GNP for India and Other Countries, 1990s

Country	*Year*	*Per Capita R&D Expenditure in US $*	*Per Capita GNP in US $ (year 1999)*	*R&D Expenditure as % of GNP*
Argentina	1995	30.00	7,600	0.38
Australia	1996	299.71 (1994)	20,050	1.80
Austria	1997	-	25,970	1.53
Brazil	1996	36.19	4,420	0.81
Canada	1997	317.90	19,320	1.66
China	1997	-	980	0.66
Czech Republic	1997	-	5,060	1.20
Denmark	1997	-	32,030	1.95
Egypt	1996	4.13 (1995)	1,400	0.22
Germany	1997	598.40	25,350	2.41
France	1997	527.12	23,480	2.25
Guyana	1982	1.33	510	0.23
Hungary	1996	-	4,650	0.68
India	1998	3.10	480	0.81
Indonesia	1994	1.00	580	0.07
Israel	1997	296.65 (1992)	-	2.35
Italy	1997	202.44	19,710	2.21
Japan	1996	1,001.84	32,230	2.80
Republic of Korea	1996	290.50	8,490	2.82
Nigeria	1987	0.25	310	0.09
Pakistan	1987	2.93	470	0.92
Philippines	1992	1.80	1,020	0.22
Singapore	1995	341.57	29,610	1.13
Spain	1997	103.41 (1994)	14,000	0.90
Sweden	1995	701.53 (1993)	25,040	3.76
U.K.	1996	390.50	22,640	1.95
U.S.A.	1996	720.00	30,600	2.64
Russian Federation	1996	-	2,270	0.88
Venezuela	1992	14.04	3,670	0.49

(Source: R & D Statistics 2000-01, Ministry of Science and Technology, Govt. of India.)

Note : Figures in parentheses represents the year for which data is available.

Table 11.11

Indian Government's Expenditure on Higher and Technical Education as a Proportion of GNP. Higher Education: Relative Priorities

Year	*Government Expenditure on Higher Education as*		*Government Expenditure on Technical Education as*	
	% of GNP	% of Total Government Revenue Expenditure	% of GNP	% of Total Government Revenue Expenditure
1990-91	0.46	1.58	0.15	0.51
1991-92	0.42	1.43	0.14	0.48
1992-93	0.41	1.42	0.14	0.48
1993-94	0.40	1.42	0.13	1.47
1994-95	0.39	1.40	0.13	0.47
1995-96	0.37	1.35	0.12	0.45
1996-97	0.35	1.30	0.12	0.44
1997-98	0.35	1.31	0.12	0.44
1998-99	0.43	1.39	0.13	0.47
1999-2000	0.47	1.61	0.14	0.48
2000-01	0.49	1.61	0.13	0.44
2001-02	0.39	1.31	0.12	0.41
2002-03RE	0.40	1.28	0.13	0.41
2003-04BE	0.37	1.23	0.13	0.42

[Sources: Based on Analysis of Budget Expenditure on Education (various years). CABE Report on Funding of Higher Education in India. 2005.]

Table 11.12

Growth of Degree Level Engineering Institutions (1947 to 1990)

Year	*No. of Institutions*	*Students Intake*	*Intake per Institution (Average)*
1950	50	3,700	74
1960	110	16,000	145
1970	145	18,200	125
1980	158	28,500	180
1990	337	66,600	198

(Source: AICTE Annual Reports and Gupta *et al.,* 1999.)

Table 11.13

Growth of Degree Level Engineering Institutions (1991 0nwards)

Year	*No. of Institutions*	*Students Intake*	*Intake per Institution (Average)*
1990	337	66,600	198
2000	776	1,85,758	240
2003	1,208	3,58,721	298
2004	1,265	4,04,800	320
2005	1,346	4,52,260	336
2006	1,511	5,50,986	364
2007	1,668	6,53,290	392

(Source: AICTE Report 2007.)

Above 2 Tables taken from: Chopra and Sharma (2009).

Table 11.14

India's IT industry (US$ bn)

Particulars	*FY 2004*	*FY 2005*	*FY 2006*	*FY 2007(E)*
IT Service:	10.4	13.5	17.80	23.7
- *Exports*	7.3	10.0	13.13	18.1
- *Domestic*	3.1	3.5	4.50	5.6
ITES-BPO:	3.4	5.2	7.20	9.5
- *Exports*	3.1	4.6	6.30	8.3
-*Domestic*	0.3	0.6	0.90	1.2
Engineering Services, R&D	2.9	3.9	5.30	6.5
and Software Products:				
- *Exports*	2.5	3.1	4.00	4.9
-*Domestic*	0.4	0.7	1.30	1.6
Hardware	5.0	5.9	7.00	8.2
Total IT industry:	21.6	28.4	37.40	47.8
- *Exports*	13.4	18.2	24.10	31.9
- *Domestic*	8.3	10.2	13.20	15.9

(Source: NASSCOM.)

Taken from: Sinha (2009).

Table-11.15

Number of R&D Institutions under Various Agencies

Sector	*No. of R&D Institutions*
Major S&T agencies of Central Government	462
Central Government Ministers / Departments	245
Public Sector in-house R&D Institutes under Ministers / Departments	115
Total under Central Government	822
State Government (Institutions, Research Stations, Joint Sector Companies)	834
Universities	182
Deemed Universities	89
Institutions of National Importance	13
Total Higher Academic institutions	284
Private Sector in-house R&D institutions	2,020
Gtand total	3,960

(Source: Department of Science & Technology.)

Taken from: Bandyopadhyaya (2009).

Table 11.16

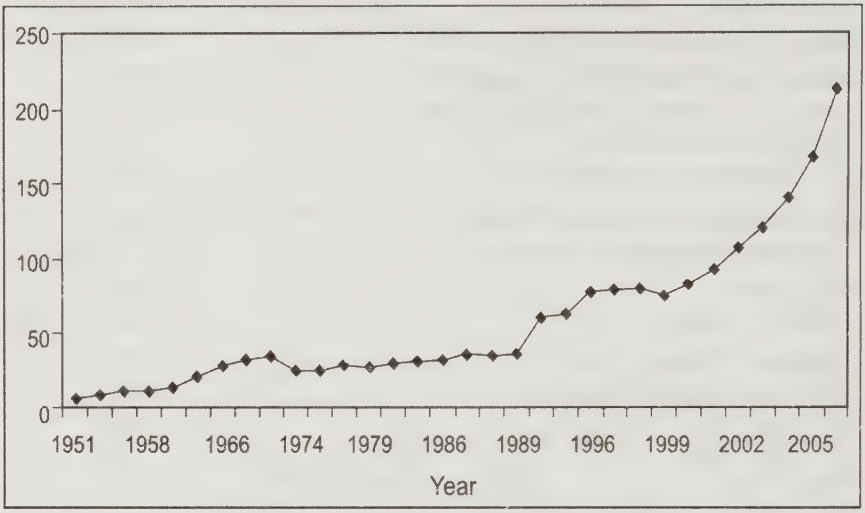
Employment in the IT Sector 1981 – 2003

Year	*Employment*	*Annual Growth Rate (%)*
1981	2,384	
1986	6,800	23
1991	15,066	17
2001	3,45,220	37
2002	4,35,000	26
2003	6,50,000	49

(Source: NASSCOM Annual Report 2002-03.)

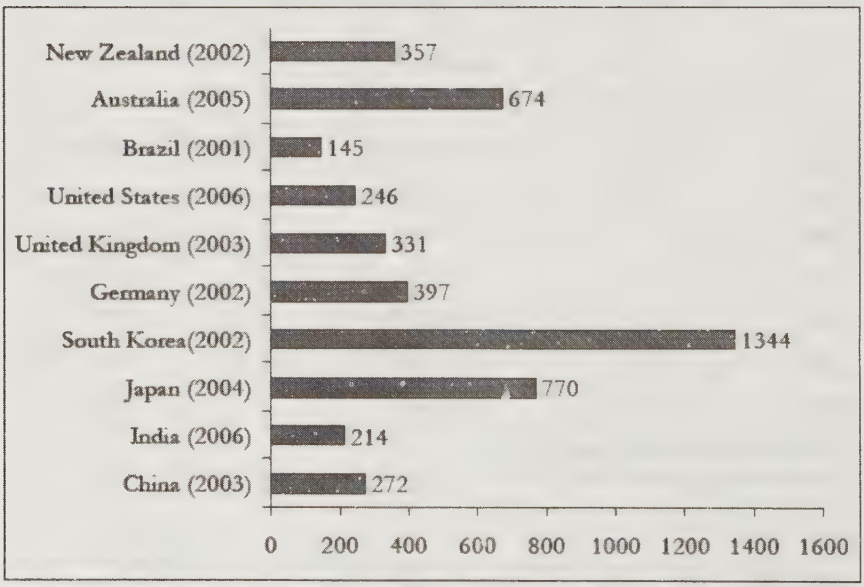
Graph 11.1

Growth of engineering graduates per million population in India since independence



Graph 11.2

Engineers per million population for different countries



(Source: Both Graphs taken from Chopra and Sharma (2009): "Higher Technical Education in India — Profile of Growth and Future Perspectives". Paper presented at the International Conference on Indian Best Practices on Innovation and Development.)

The disruption and the lack of self-confidence in ourselves are reflected in our preference for foreign compared to indigenous. Smuggling and flaunting of foreign brands is an aspect of this. Advertisements are used to attract attention to a good or a service and here too foreigners or Western looking models are used in large measure. Even our sense of beauty which usually is cultural has changed and we have accepted to use Western standards to define it as is visible in our fashion shows and beauty contests. At another level, to gain credibility, we prefer to mention our foreign travel and in writings quote foreigners when making a point. Even those who swear by Swadeshi tend to do that. Our incentive systems are such that we promote foreign degrees even from poor universities over our own degrees. Consequently, many children are making a beeline to go to very poor quality foreign universities even though we have some much better institutions here in India.

Good Indian journals are few and far in between since "good" academics publish abroad, because that is what gets them recognition. For appointments and promotions, papers published in foreign journals and conferences attended there count for more (For instance, see UGC Regulations 2010). The yardstick for judging merit is defined in Western terms. No wonder, the perspective of the researchers is superficially Western — confined to copying its framework. So, the problem at hand is viewed from the perspective of the West and the solution is also sought from the same source. Often, the agenda is set in the West through its agencies, like the World Bank or ILO. For instance, there is far more research on AIDs than on TB or malaria, which are more relevant to our needs, not that AIDs is unimportant. We have not explored alternative energy resources as seriously as we should have because till recently, the West did not pay much importance to it.

Society has become attuned to seeking solutions from the West and bypassing the indigenous institutions of higher learning and thereby according to them a low social status. This affects the self-perception of the institutions and their personnel. For instance, IITs have been hugely successful in getting the best and churning out good quality students but there is not much research output since the entire focus is on the undergraduate programme, which feeds the best students into the management course or supplies talent to the West.

To reduce the risk of investment and encourage the private sector to also do R&D, there is need for a stable policy framework. Indian policies have changed almost every five years and increasingly subject to short-term considerations, and that too under pressure from vested interests (Kumar, 1988a). Who is the favourite of which government and what suits them can influence policies just as much as foreign interests. No wonder it is the public sector, which does most of the R&D because they can operate at a loss.

Table 11.8 shows that in 2000-01, roughly 77% of the research effort was by the public sector while it was 86.2% in 1990-91. However, often what is claimed to be the research effort by the private sector turns out to be related to marketing and not properly R&D. Thus, its actual R&D effort is even lower. Also, industry spends a lot of effort in manipulating policies, rather than on research because that yields higher profits.

The nation cannot succeed in R&D without a long-term vision, stable policies and state support. Very importantly, in a backward country there is need for offering protection to areas of strategic interest for the country (*Also see* Chapter V, Section 3.2.3). However, we have not been able to decide which areas in our view are the critical ones that need protection in the long run. Further, protection would require import duties but we use them more for revenue raising rather than for any strategic purpose and now under the WTO we are not able to raise import tariffs because of our acceptance of bound rates. Finally, good infrastructure is critical for research but this is largely lacking.

While India's backwardness is traceable to its late start, the advantages it offers have never been taken. We could have learnt from the mistakes that were already made in the West (*Also see* Chapter X, Section 5). That could have spurred us to chart an independent path or at least avoid the known pitfalls of western technology. However, the idea of independence has been alien to the leadership of our disrupted society with its colonised consciousness. So, we have adopted technology without reassessment and are paying all the costs associated with blind copying. The disadvantages of our late start are accentuated by our situation being considerably different from that of the West when it was at its initial stages of development (*see* Chapter V, Section 1.3.1).

7.7 Technology and Workers

Size of the market is important for technological progress. As it expands, newer technologies become feasible, which cheapen the product. The recent success in mobile telephony illustrates the point. As discussed in Chapter V, Section 5, its massive expansion is a result of the scale economies and fall in prices rather than privatisation. To expand the market, either exports have to grow by capturing other's markets (like the colonial powers did during the period of colonisation or Japan and China have practised) or one has to cheapen the products and expand the home market or both. Cheapening is also achieved by either increasing exploitation of labour so that the wage bill as a share of the output goes down or by increasing exploitation of the environment and pushing the cost of its cleaning up on the future generations

(*see* Chapter V). Both these have serious social consequences as the experience of the advanced countries has shown but we have ignored them.

Increasingly, workers are being made to work longer hours so that the number employed and the wage bill can be reduced. Workers are forced to do the work of say, three workers and paid only one and a half times what was paid earlier. Alternatively, labour is obtained from the unorganised sector through outsourcing or on piece work basis. Productivity has increased at the expense of the workers' health and family life. This is an important difference between the Anglo-Saxon and the European models. The social responsibility to workers is kept in mind in the latter but not in the former where a worker appears as little more than a sophisticated machine, which can be switched on and off at will or made to run for a longer time than one shift. Unfortunately, the European model has been under pressure due to global competition due to opening up and mobility of capital (*see* Chapter VII) so that its way of life has been affected in the last three decades.

The increase in exploitation of labour manifests itself as a rise in the output to wage ratio — called labour productivity. Table 10.3 shows that in India's organised sectors, the wage share in output has dropped from 29% in 1973-74 to 12% in 2005-06. Further, in value-added the share is seen to fall even more sharply from 8% in 1973-74 to 1.97% in 2005-06. All this is treated as an increase in productivity of the economy and of the particular industries. However, this is not the true measure of rise in productivity of labour. In the recent global crisis, as unemployment rose, the workers remaining employed have been even more severely exploited and labour productivity can be taken to have risen sharply. It is the marketisation process (*see* Chapter VII) that has made greater exploitation of labour more acceptable in society. However, this leads to a depression of mass consumption, which creates a demand problem and slowdown of the economy. It has been sought to be overcome by the debt-based economy, which is itself not tenable for long (*see* Kumar, 2009c). Hence, an increase in the share of profit in the economy leads to growing problems in the long-run.

While new technology and new products (cell phones, DVD players, etc.) result in increase in employment, it can reduce employment by making certain branches of production redundant (for instance, decline in the small and cottage sectors) and increasing productivity in other branches of production (like in banking). Often, earlier production by labour intensive methods is replaced by production by capital intensive methods and thereby lowering the potential employment in the economy. Policy makers, typically, emphasise how many new jobs will be created but do not say how many jobs would be lost. It is the net job creation that is important for the economy and its well being. On the whole, in spite of the massive investment going on in the Indian economy in the organised sector, it has been shedding jobs for the last

two decades (*see* Chapter X, Section 3). The result is that there is an expanding reserve army of labour which allows greater exploitation of labour.

Gandhi suggested that technology related policies ought to be based on the needs of the people (last person first) and since a majority were destitute and illiterate, he suggested the use of relevant (low and intermediate) technology. This is taken to mean he was anti-modern technology. He argued that Western civilisation is demonic because it marginalises the individuals and brings crisis to their lives (Gandhi, 1909). It is suggested that he was hypocritical because he used the railways, automobiles and modern ships to travel while arguing against their use. To this list one can add the use of telegraph and radio for communication, the printing press for publication of his views and so many items of daily use that one cannot do without in modern day life. In fact, living in society (as opposed to being a hermit in the mountains or in the forests), products of modern technology cannot be avoided. None of this negates Gandhi's critique or his desire to move society to a more rational system. While Gandhi may have exhibited contradictions in the details of his tactical pronouncements, his main point remains valid that society must remain in control of technology rather than let it acquire control over societal dynamics, promote greed, weaken the individual and impoverish the people.

In brief, while technology brings solutions, it also results in problems and that is why it must be under society's control and not become a seemingly autonomous force (under the control of capital and serving its purpose) driving social change in directions that are unknown and that may create severe difficulties. India too, has to decide what it wishes to do regarding the ongoing exploitation of its workers and of its environment and what the balance ought to be between the present and the future. Unfortunately, there is little debate on these critical issues.

7.8 Other Aspects of Technical Change

As argued above, the scale of investment required to develop most modern technologies is very large. Correspondingly, the risk involved is also high. So, neither can the smaller economies invest so much, nor can they take on the risk involved. None of the developing countries on their own can put together the manpower or the other resources required for advanced research. That is why there is need for joint research. But the developing countries do not have the framework for such collaborative research. In fact, even the smaller OECD nations have had to get together to do research (Kumar, 1988a). India could have taken a lead in promoting joint research but to do that requires a different understanding than what the Indian ruling class has.

Even when joint research is organised by the UN (say, UNIDO) or multilateral agencies (say, IRRI), it is dominated by the West.

An independent political stance requires an independent defence policy which is not feasible without development of technology. In the USA (similarly in the other advanced countries), the Defence department and the Space agency grant large amount of funds for research in the universities, in addition to the NSF and private sector. The risk of development of advanced technologies is taken up by the government. Since India is considerably behind the advanced nations, it needs to fund R&D on an even larger scale but this is not in evidence (*see* Table 11.10). Further, as argued earlier, even the effort made is considerably wasted due to the bureaucratic and feudal consciousness of those running the scientific and technological establishments. This also slows down the spread of the scientific temper in society. In such a climate, nurturing of talent is minimal while this is critical to getting the best out of our limited means.

An important aspect of the attitudinal problem is the impact of the growing black economy (*see* Chapter VIII), which results in policy failure and fosters a mind set which is not attuned to achieving perfection since the focus is on money making and not the quality of work — so essential to high quality research. It undermines professionalism in a big way. One can understand this by considering the example of many science students who cook up the readings to get correct results in experiments. Over time, they conclude that they cannot obtain the correct results and, therefore, never learn how to do the experiments properly. This saps their faith in their capacity to achieve perfection and, therefore, such people would find it hard to do cutting edge research which requires precision.

As discussed in the previous section, school education is critical for building the base of higher education and then of research. Weaknesses, like rote learning plague our youngsters right through their lives so that they are unable to do critical thinking so essential for any research, which requires one to break out of one's shackles and see new possibilities. Further, since fostering creativity is a random process there is a need to get the best from every citizen and that requires high quality education from school onwards.

Another example of a lack of understanding of the Indian ruling elite of the nation's long-term interest is the willingness to export the nation's best talent to the West. This reduces the dynamism of the nation while helping other nations' efforts. This brain drain is often justified on the grounds that currently we are unable to utilise this talent since we do not have the jobs for them and by going abroad, these people will continue to develop capabilities that we would not be able to help them with. It is argued that this way India can have access to talent at some point in the future, even if not now. The Indian government has actively lobbied to have more H1B visas from the

US government so that more Indian talent can go to that country. It is also argued that these people are our exports and earn us foreign exchange.

If this was a short-run policy, one can understand a temporary mismatch between supply and demand for talent. Unfortunately, this is no temporary phenomenon, with increasing number of young people going abroad for studies and jobs and then staying back. The nations receiving our youngsters are interested in taking the best to help their economies to grow faster. To migrate to the advanced countries, one has to belong to those categories of skills that are in short supply in those countries. It is another matter that in those categories India is even more short of talent (like, high end software development). It is a pity that we train the young at a high cost and then lose them to others. The rising population of NRIs suggests that more and more Indians are preferring to settle down in the countries they go to. This is not to discount the few capable and eminent people who do return but their numbers are small, compared to those who go out. The question is which other successful nation trains its best to lose them to other countries?

NRIs have become influential in India because of their links with the elite in India, because of the capital they own and because of the association of going West with success. We treat anyone returning from the West as better than those who stay back. NRIs enjoy a clout bigger than their numbers would justify and have been pushing for policies favourable to them and dictating terms to the Indian elite for the help it gives. The problem is also complicated by the existence of the large black economy, the large sums of money the rulers have taken out of the country (running into trillions of dollars at current valuation). Its management is in the hands of trusted NRIs — family members and business partners. Thus, to protect this capital and maintain relationships, NRIs have to be kept happy. They have been offered facilities to retain their toehold in India as well as abroad. This provides further incentive to the talented Indians to go abroad since this way they can get the best of both worlds. They can get the high salaries and develop their skills abroad and also get all the privileges back home. In brief, this is a recipe both for the loss of India's dynamism and continued domination of the West in the country — disruption continues in a different one than the one fostered by colonialism.

8. Need for Societal Control Over Technology

It has been argued above that the colonial rule adversely affected Indian R&D over almost two centuries and that has had an impact on the institutions of higher learning and therefore, on current research. During this period of two and a half centuries, life has changed almost completely in big and small ways but to a pattern determined by the West. This has severely

dented our creativity since we have learnt to copy, often inappropriately, rather than create. Much of what has been copied has not been commensurate with the skills of our people, so that we have not even been good imitators, much less innovators or inventors. It hurts our pride that we have done so poorly in R&D, so that we claim to be innovating but often it is a poor replication of the technology developed much earlier in the advanced countries. Innovation can only be improvements on the current cutting edge or intermediate technology. On the base of the technology being used if some improvement is made, it does not automatically become innovation because that improvement or even better technology may already exist elsewhere, so that it would not even amount to imitation. Often, the so-called "innovations" have turned out to be a rediscovery of the earlier generation technologies and that too often poorly.

It has been pointed out that for a large country like India, there is no option but to pursue an independent path of development and that requires a high degree of dynamism. This, in turn, requires knowledge generation, especially in science and technology, both to meet internal challenges and those posed by rapid globalisation and linking up with the rest of the world. For this, a good education system and high quality R&D infrastructure are required. While we have done better than many of the developing countries and set up a big infrastructure, it is inadequate to achieve a leadership position in the world because of its poor quality and inadequate funding. Expenditures incurred are often wasted since our national and institutional leadership with its feudal attitude undermines excellence by giving preference to patronage. Finally, a large pool of trained manpower has gone abroad to work there and this has further undermined the national effort.

Technology has been characterised as high, intermediate and low. The advanced countries operate with the first two while the developing world works mostly with the latter two. Further, it is argued that technology is a moving frontier so that today's high technology products become tomorrows intermediate and the day after tomorrow's low technology products, so that in spite of the advances made, the gap has not closed. For a large country like India, which has had little access to high technology, there is no option but to develop its own technology for its own needs. It is pointed out that India suffers from the disadvantage of a late start even though it could have been converted into an advantage if we had had an independent stance. After all, the advanced countries also went up the technology ladder gradually to reach their present levels. We, as a late starter, have had the advantage of knowing how this path was traversed and could have benefited from the markers that have been created by those who climbed the ladder before us. Further, we could have taken advantage of the known pitfalls in the path and avoided them. For instance, to minimise air pollution, we could have opted

for public rather than private transport and we could have settled for small cities rather than large urban agglomerations.

It is pointed out that the private sector in India has hardly invested in R&D so that the burden fell on the public sector. Since research is the most risky investment (because returns are uncertain) the world over, it needs state support and also because some of the modern research is hugely expensive it needs large investments, which in a poor country only the state can afford. But, there have been forces that have not wanted India to become technologically independent and these have been undermining the indigenous effort. The strategic retreat of the state after 1991 and the WTO regime after 1995 have set back public sector research in the country leading to further set back.

Socially relevant technology requires clarity about our social needs and whether we want to solve our social problems ourselves. Gandhi was clear about this even though he is seen as anti-modern technology. He argued that priority has to be given to the needs of the most marginalised sections (last person first) and that would be both democratic as well as rational for society and keep technology in control of society. Unfortunately, by following a dependent path, rather than catering to our needs, we have served the interests of others who are driving the global process. By mechanically copying their technology we work for their wider interests. Our research agenda is often dictated by the current needs of the advanced countries and not our own needs, so that we are unable to solve our own problems. We have accepted the emerging international division of labour and produce intermediate and low-technology goods cheap for the international markets even though it damages our environment. To produce goods cheap for the global market, we have increased exploitation of our workers. This results in the marginalisation of a majority of our society and also damages our environment.

In brief, in this most critical aspect of our social dynamics, the colonial disruption of our society is most visible. The Indian ruling elite does not understand the nation's long-term interest and, therefore, works against it even though in the short-run it may appear that the nation is making good progress. It is akin to the British introducing modern technology in India in the form of railways, but as exploitation increased, the social conditions deteriorated.

9. Conclusion

India has been on the path of modernisation (Western) since independence and has made substantial efforts in that direction. The large social and physical infrastructure that have come up have led to substantial material gains, compared to many other developing countries. However, they remain inade-

quate, compared to the advanced countries and also the successful Newly Industrialised Countries of S. E. Asia or China. Modernisation in India has been patchy with unevenness across regions and within regions and this has aggravated the considerable pre-existing social problems. Unfortunately, the Indian ruling elite in its own self centred existence does not see these facts.

The two noble professions, education and health, are no more treated as noble because they are increasingly governed by commercial considerations. It is argued that in the case of education, its valuation is almost impossible and, therefore, when privatisation takes place, it is hard to fix a price and results in oligopolistic pricing. The same applies in the case of health. As a result, with privatisation, there has been a tendency for prices of these essentials to rise sharply so that there is inadequate provision of these services, especially for the marginalised sections. The market cannot cater to their needs and this then has the potential to lock them permanently into poverty.

It is not just literacy and education that are at issue but their content, even more so. For instance, according to the establishment perspective, Mir Jaffar or Jai Chand were heroes but for the nationalists they were traitors — the perspective one adopts is critical. In the present education system, neither the need for independent thought nor for a relevant development path are emphasised so that the Western path appears to be the only choice for the young. This has continued the disruption in society created by the colonial rule. It manifests itself in a variety of ways. For instance, one strand of leadership emerging from this education considers itself to be nationalistic by praising the glory of the distant past — a narrow concept of nationalism. It thrives on accentuating divisions in society by trying to set right the perceived historical wrongs rather than learning from the past that social divisions led to colonisation and disruption in society. The other stream of nationalists define the national interest as chasing Western modernity and to become like them. In its self-centeredness, it thinks of modernity as technological and not social. In the absence of a deeper social commitment, it has often defined the national interest narrowly as that of a party or a leader. If the content of education was democratic and independent in thought (based on the nation's needs), both these tendencies would have been checked.

Growing commercialisation of education is resulting in serious distortions in society, which is adding a layer of disruption over what society has been suffering from due to colonisation. Thus, the loss of dynamism during the colonial period has continued so that instead of being able to resolve the problems, newer ones have emerged, making the situation far more intractable. Thus, instead of the most dynamic aspect of society, education, becoming the source of solutions, it has compounded the problems.

Society is confronted by the dilemma of precedence — chicken or egg. Disruption distorts society's view on education and that further leads to dis-

ruptions and to more distortions. Partial solutions that are sought to be imposed create their own problems so that the situation looks intractable and complex and then only partial solutions (or non-solutions) seem feasible, which lead to further contradictions in the situation.

One of the key colonial disruptions was the distancing of the ruling elite from the vast bulk of the people of India and its accountability to an external power. This has continued in the post-independence period with the elite imposing its own interest on the nation, namely the desire to join the international elite, thereby marginalising the rest of the people. This is reflected in the lack of will for universal high quality school education or for tackling learning deficiencies. The elite can afford to send their children to elite schools paying high fees or even abroad at a high cost.

It has been argued that the problem is not resources but lack of political will and commitment of the elite to society. This class does not think of children as future citizens whose contribution to the country's future would be critical. That is why education is not given the due — the highest priority — in society and is treated as one of the many things that are required to be done. The lack of vision of the future is reflected in allowing advertising and programmes based on sex and violence to be beamed at our children (who are getting addicted to TV) which result in confusion and aggression in children. If at all there has been some concern it has been for the elite private schools which cater to a small minority.

Regarding higher education it is pointed out that originality is not allowed free play but is often suppressed. When this can happen in the most dynamic social aspect, it is little wonder that other institutions are even more adversely affected. For those in politics, business, bureaucracy or judiciary, etc. whose role in knowledge generation is much less, originality and creativity count for even less. These sections that dominate power remain mired in their feudal mould where power is critical and the wider social dynamism secondary.

It is such people who decide on the leadership of the academic institutions and because they hardly value ideas, they do not see the link of the non-dynamism of the institutions of higher learning with continuing backwardness of the nation. Consequently, while individuals are creative, overall the system is not. That is why one often hears that Indians do well when abroad but on returning to India they do not do so well. Partly it is also the case that those who return are usually not the best (there are always exceptions). Indians who have won Nobel prizes have lived abroad and those who have got great literary awards have also made London or New York, etc. their base. Struggle in the backwaters is too much to take and anyway they get the royal treatment on their holidays back home and do not have to contend with the natives as equals who are anyway mostly mediocre and willing to be their sycophants.

Indian academics returning from the West from the democratic system prevailing there have either adapted to the feudal system here and stayed back or gone back. It is interesting to see how those Indian academics who travel back and forth between India and the West seamlessly change their pattern of functioning. While here, they act in a feudal manner *vis-a-vis* students and their juniors, but when in the West they act democratically to function there — becoming split personalities.

In brief, when the critical institutions where democratic functioning is so crucial are so feudal then other institutions where such functioning is less important (like in bureaucracy) how can transformation to a new democratic ethos be possible. This creates a vicious circle that perpetuates feudal modes of control and functioning that keeps the nation down. It is argued in this chapter that these aspects of our functioning impact our economic sectors, like agriculture, industry, physical infrastructure — urbanisation, transportation, energy and communication.

It is suggested that the problems in knowledge generation are a result of the loss of value of ideas in society and especially amongst the ruling elite and this is the cause of the underlying social and economic crisis in India This is the reason why the ruling elite are neither able to understand the historical context of the challenges facing our society nor chart an independent path for the nation nor transform themselves from dependency to independence. Consequently, the widespread problems persisting for the last 60 years have neither been understood nor resolved. It is neither understood that there can be no mechanical solutions for the problems nor piecemeal reform is feasible. In spite of overwhelming problems it is not being argued that nothing can be done. Education holds tremendous potential for change, as Pathak (2009) says:

> " . . . 'base' and 'superstructure', far from being engaged in a purely causal / deterministic relationship, constitute an integrated whole, and education is, therefore deeply significant for shaping our consciousness and priorities." (p.10)

It is argued in this chapter that those in the education field are as much victims of the disruption as those outside it but the capacity of the former to break out of it is higher so the onus has to be on them to rectify the situation. For this, they have to stop being "derived intellectuals" and challenge the feudal mindset that prevails in their institutions and in society. They have to make education non-alienating and accessible to a much larger population. Gandhi can be a possible starting point for the major overhaul of the Indian education system but the Indian ruling elite, in its drive to join the international elite, is not interested in it. Its focus is external and not internal — an impact of the colonial era, which formed their disrupted consciousness to start with.

Appendix I: S & T and Industrial Policies

Taken from *"Indian Best Policies on Innovation & Development"*, April 2009. Centre for Science & Technology of Non-aligned & Other Developing Countries (NAM S&T Centre).

I. S&T Governance in India

Kulshrestha (2009).

1. Policy Framework for Science & Technology Growth

- Scientific Policy Resolution (1956).
- National Education Policy (1968).
- Technology Policy Statement (1983).
- National Policy on Education (1986) (modified in 1992).
- Technology Vision 2020 (1997).
- Information Technology Policy (2000).
- Science and Technology Policy (2003).
- National Biotechnology Development Strategy (2007).
- National Innovation Act (2008).

2. Scientific Policy Resolution, 1958

- To foster, promote and sustain, by all appropriate means, the cultivation of science research in all aspects — pure applied and educational;
- To ensure an adequate supply, within the country, of research scientist of the highest quality, and to recognise their work as an important component of the strength of the nation; as an important component of the strength of the nation;
- To encourage, and initiate, with all possible speed, programmes for the training of scientific and technical personnel, on a scale adequate to fulfil the country's need in science and education, agriculture and industry, and defence;
- To encourage individual initiative for the acquisition and dissemination of knowledge, and for the discovery of new knowledge, in an atmosphere of academic freedom;
- And, in general, to secure for the people of the country all the benefits that can accrue from the acquisition and application benefits that can accrue from the acquisition and application of scientific knowledge.

3. Technology Policy Statement, 1983

- Attain technological competence and self-reliance;
- Use traditional skills and capabilities, making them commercially competitive;
- Ensure the correct mix between mass production technologies and production by the masses;
- Ensure maximum development with minimum capital outlay;
- Identify obsolescence of technology in use and arrange for modernisation;
- Develop technologies which are internationally competitive;
- Improve production speedily through greater efficiency and fuller utilisation of existing capabilities;
- Reduce demands on energy, particularly energy from non-renewable sources;
- Ensure harmony with the environment, preserve the ecological balance;
- Recycle waste material and make full utilisation of by-products.

4. Science & Technology Policy, 2003

Sixteen point implementation plan; the important ones are:

- S&T governance and investment.
- Promotion of innovation.
- Industry and scientific R&D.
- Strengthening of infrastructure for S&T in academic institution.
- New funding mechanisms for basic research.
- Technology development, transfer and diffusion.
- Indigenous resources and traditional knowledge.
- Generation and management of intellectual property.
- Human resource development.

5. Creation of Core Scientific Departments

Central Sector:

- Department of Atomic Energy.
- Department of Biotechnology.
- Ministry of Earth Sciences.
- Department of Space.
- Department of Scientific & Industrial research.
- Department of Science & Technology.
- Ministry of Environment and Forest.
- Ministry of Information Technology.

- Ministry of Non-conventional Energy Resources.
- Central Electronics Ltd.
- National Research Development Corporation.
- Department of Industrial Policy & Promotion.

State Sector:

- State Councils of Science and Technology.

Technology Base:

- More than 300 universities.
- About 1200 in-house R&D units in industrial undertakings.
- About 1200 R&D labs in Government and Public sector.
- Growing acceptance of business incubators, technology / biotechnology parks.
- Small but formidable presence of R&Ds centres owned and operated by MNCs.
- More than 16 thousand science and engineering colleges including IITs, IIITs and NITs.
- About 157 million scientists and engineers.

II: Policies for Industrial Development and Technological Innovation in India

Bandyopadhyaya (2009).

1. Policies on ICT

As a part of the reforms agenda, the Indian Government has taken major steps to promote ICT, with a focus on software development for export; telecommunications policy reform, privatisation of the national long-distance and mobile phone markets; and development of a more comprehensive approach to ICT. Some of the policy initiatives on the information and communication technology industry are:

- Policy on electronics components — 1981.
- Industrial and licensing policy for colour television receiver — 1983.
- Measures to accelerate the rapid development of electronics — 1983.
- New Computer policy — 1984 and 1988.
- Integrated policy measures in electronics — 1985.
- New Software Policy — 1986.
- World Market Policy — 1988.
- New Telecom Policy — 1999.

Further, to attract foreign direct investment, the government permitted foreign equity of up to 100 percent and duty free import of all inputs.

2.1 Industrial Policy Resolution, 1948

The first Industrial Policy Resolution was declared by the Government in April 1948 . . . . A clear demarcation was made among various sectors to be kept under the domain of the public sector, private sector and the joint sector. . . . the State would be exclusively owning and controlling industry on arms and ammunition, atomic energy, railway transport, and the establishment of new undertakings in six basic industries except where, in the national interest, the state itself found it is necessary to secure the cooperation of private enterprises. The rest of the industries was left open to private enterprises though it was made clear that the State would also progressively participate in such industries. Further, a distinctly co-operative bias to the cottage and small scale industries was given in the resolution.

Consequent upon the adoption of the Resolution of 1948, the Industrial Department and Regulation Act (IDR Act) was enacted in 1951 in order to empower the Government to regulate the process of industrial development through licensing.

2.2 Industrial Policy Resolution, 1956

With the enactment of the Constitution of India, the country accepted the socialistic pattern of society as the objective of social and economic policy. Towards the end of the First Five Year Plan (1951-56), a need was felt to formulate a fresh industrial policy. Thus IPR 1956 was adopted based on the "Mahalanobis Model", which emphasised on the role of heavy industries for a long-term higher economic growth. Since capital was scarce and the entrepreneurial base was not strong enough, the IPR 1956 gave prime importance to the role of the State to assume a predominant and direct responsibility for industrial development and therefore, the scope of the public sector was expanded . . . .

It was decided that all industries of basic and strategic importance and in the nature of public utility services should be in the public sector. Industries requiring large investment, e.g. heavy machinery, steel, fertilisers, locomotives, petrochemicals, oil and gas exploration and refining, etc. were also reserved for public sector. Accordingly, the industries were classified into three categories, based on the proposed state intervention and ownership in each of them. The first category that comprised 17 industries including railways, air transport, arms and ammunition, iron and steel and atomic energy was under exclusive domain of the State. The second category consisted 12 industries, which were to be progressively State-owned, but in which private

enterprise was also welcome to supplement the effort of the State. The third category comprised the rest of the industries, which was, in general, left to the private sector.

Further, the role of cottage, village and small scale industries in the development of national economy was reemphasised in the Resolution. It was also stressed that disparities in levels of development among different regions should be progressively reduced.

2.3 Industrial Policy Measures in 1960s and 1970s

The policy directions during this period were restrictive to control monopolies, foreign investment and imports of technology. In compliance with the IPR 1956, the Monopolies and Restrictive Trade Practices (MRTP) Act was introduced in 1969 to enable the Government to effectively control concentration of economic power with a few individuals and groups. The new Industrial Licensing Policy (ILP) was passed in 1970 that classified industries into four categories, viz. "Core Sector", "Heavy Investment Sector", the "Middle Sector", and the "De-licensed Sector". The ILP of 1970 restricted the role of large business houses and foreign companies to the core, heavy and export oriented sectors. A Patent Law was enacted in the same year to safeguard the rights for process technologies but it restricted product patenting. Technology import policy was made more restrictive and selective.

2.4 Industrial Policy Statement 1973

With a view to preventing excessive concentration of industrial activity in the large industrial houses, this Statement gave preference to small and medium entrepreneurs over the large houses and foreign companies in setting up of new capacity particularly in the production of mass consumption goods. Further, new undertakings of up to ₹10 million by way of fixed assets were exempted from licensing requirements for substantial expansion of assets.

2.5 Industrial Policy Statement, 1977

IPS 1977 laid emphasis on decentralisation and on the role of small scale, tiny and cottage industries, widely dispersed in rural areas and small towns, and reinforcing interaction of the agricultural and industrial sectors for generation of employment for the rural population. For this, a number of measures were proposed to provide support and services to small scale industries (SSI), and tiny and cottage industries, such as expansion of the list of industries exclusively reserved for the SSI sector, special legislation to promote self-employment ventures, setting up of district industries centres, effective

financial support through development financing institutions, marketing support through purchase preference and reservation for exclusive purchase by government departments and public sector undertakings, etc.

While restricting foreign investment and technology imports, the IPS 1977 recognised the role of technology for industrial development, and sought to exploit the S&T capability available in the country. . . . However, in order to promote technological self-reliance, it recognised the necessity for the import of technology in sophisticated and high priority areas where Indian skills and technology were not adequately developed, but with suitable R&D efforts by the importers, for adaptation and assimilation of such imported technologies.

2.6 Industrial Policy Statement, 1980

The IPS of 1980 focused attention to the need for promoting competition in the domestic market, technological upgradation and modernisation. Some of the socio-economic objectives spelt out in the Statement were:

(i) optimum utilisation of installed capacity,
(ii) higher productivity,
(iii) higher employment levels,
(iv) removal of regional disparities,
(v) strengthening of agricultural base,
(vi) promotion of export oriented industries,
(vii) consumer protection against high prices and poor quality, and
(viii) revival and improving efficiency of public sector undertakings (PSUs).

> Further, a strategy to provide support and encouragement to small scale industries and a policy of "Economic Federalism and Ancilliarisation" were advocated . . . .

Transfer of technology was given due importance in the policy and a number of measures were proposed for technological and managerial modernisation to improve productivity and quality, and to reduce cost of production. . . .

With a view to promoting industrialisation of backward areas, the Government of India announced in June, 1988 the Growth Centre Scheme under which 71 growth centres were proposed to be set up with basic infrastructure facilities such as power, water, telecommunications and banking to enable them to attract industries.

2.7 Industrial Policy, 1990

This policy was primarily meant for providing support for the promotion of small scale and agro-based industries (ref. Section-3.1.1). Further, under this policy, several measures were also proposed for simplification of procedures

for industrial approvals and delicensing, relaxation on import of raw materials and components, foreign investment, foreign collaboration and import of technology.

2.8 Statement of Industrial Policy, 1991

It was suggested in the Seventh Five Year Plan (1985-90) that there was a need to consolidate on the strengths gathered so far. . . . A number of policy and procedural changes were introduced during the Plan period aimed at reducing costs, and technological and managerial modernisation of industry for increasing productivity and quality and improving competitiveness in the international market. The industrial policy reforms started during the 1980s gradually reduced the industrial licensing requirements, removed restrictions on investment and expansion, and facilitated easy access to foreign technology and foreign direct investment. The public sector was freed from a number of constraints and given a great degree of autonomy.

Several reforms were proposed under the IPS of 1991 that include:

1. Abolition of industrial licensing requirement for most industries, excepting a few sectors related to security and strategic concerns, social and environmental issues.
2. Improving productivity and efficiency to avail emerging domestic and global opportunities.
3. Liberalising norms for setting up industries in cities.
4. Encouraging foreign direct investment (FDI).
5. Automatic approval for Foreign Technological Agreements (FTAs) related to high priority industries and eased procedures for hiring of foreign technical expertise in order to introduce technological dynamism in the industry.
6. Amending the MRTP Act to discontinue the practice of pre-entry scrutiny of investment decisions by MRTP companies under the Act.
7. Restructuring of public sector units (PSUs) to tackle the problems of low productivity, over staffing, technological backwardness and low rate of return and dilution of equity / disinvestment of PSUs to raise resources and ensure wider private participation in PSUs.
8. Development and utilisation of indigenous capabilities in technology through investment in R&D as well as its upgradation to world standards.
9. The spread of industrialisation to backward areas of the country through appropriate incentives, institutions and infrastructure investments.
10. Enhanced support to the small-scale sector for its economic efficiency and continuous technological upgradation.

Appendix II: Summary of Recommendations of Post-1991 Committees on Education

1992: Justice Punnaya Committee on Higher Education

It recommended that Universities / Colleges should strictly adhere to strict financial discipline. It has suggested that failure to comply be punished and strict adherence be rewarded. It suggested that the institutions augment resource availability. For instance, there should be 100% tax rebates for investment purposes. Further it suggested that student funding be based both on merit as well as social and economic considerations.

2000: Birla-Ambani Committee

Chairperson: Mukesh Ambani / Deputy: Kumaramangalam Birla.

Its major recommendations were that the government should spend more on primary / secondary education and less on higher education. It said that Higher Education is a private good, so it should mostly be in the private sector and especially the professional and applied courses should be left to the market. To promote growth of higher education, it asked that FDI be allowed in Higher Education. Further, there should be a Private Universities Bill to promote them.

It suggested a grading system (rankings) for the educational institutions. It felt that this would give students choice. That there could be severe information asymmetries for the students and the families and they could be taken for a ride was ignored. They suggested a rating system like for financial products.

2006-07: National Knowledge Commission (2 Reports)

Chairperson: Sam Pitroda.

The main recommendation is to bring in private players in education in a major way without worrying whether the objective of "Inclusion" would be fulfilled or not and without understanding the reasons of failure of the education system as it exists or suggesting how privatisation would help in overcoming them. Its underlying assumption is that the Indian Education System can't be revamped so new structures have to be created. It has suggested setting up of 1500 more Universities through conversion of the best colleges into universities, setting up of 50 Inter-disciplinary National Universities and so on. It suggests an Independent Regulatory Authority of Higher Education (IRAHE) in place of UGC / AICTE, etc.

It argues, government has failed to expand higher education in India because of lack of resources and inefficiency and corruption. There is a need for increase in public funding and diversification of sources of funding, including, selling of land. It has suggested privatisation of quality and development of rating system (also recommended by Birla-Ambani Report). NKC criticised the prevalent practice that if universities augmented resources by a certain amount the UGC would reduce budget allocation to that university by the same amount as it left no incentive for universities.

It has proposed a mechanical incentive system, like, in business and argued for salary differentials and bonuses for teachers. Whether these incentives work in academia or not is of little concern to the Commission.

It has suggested Gross Enrollment Ratios in higher education to be raised from 11% to 16%. It also suggested that deserving students be encouraged through scholarships and affirmative action.

2008: Anwar Hooda Committee

Its major recommendation was that salary structure of teachers be revised to overcome shortages and institutions be allowed to make profits so as to encourage the entry of private players.

2009: Yashpal Committee (UGC Reform and Restructuring Committee)

- Set up in response to the recommendation made by the National Knowledge Commission for the abandonment of UGC. Set up to look into ways to reform and restructure UGC in the present context.
- Quality of education is difficult to define, as are the inputs as well as the outputs of education. There is a fear that loose definitions of quality would make private players resort to cost-cutting techniques and become diploma granting factories rather than citadels of learning.

11 Five-Year Plan Proposals

By 2012, the expenditure on education is to go up by 8.5 times and new institutions are to be created:

- 16 IITs, 6 IIMs, 1,600 Engineering Colleges, 2000 Medical Schools.
- 1,700 Teacher Training Institutes, 2,600 Professional Colleges.

As it is, the number of private colleges has increased sharply as given in Table 11.5.

Appendix III: Proposed Sources of Financing Higher Education

The following suggestions, compatible with privatisation, are made (*see* Chattopadhyay, 2007):

1. **Deregulation of Fee Structure** to enable institutions to raise resources as they wish with at least 20% of the cost of education recovered from students. The private sector has used this in a big way but the public universities and colleges are also pressured to follow suit. It is argued that quality and cost are positively related so good education will have high cost and the students should bear a part of it. The scheme is made to sound reasonable by providing for scholarships to the deserving ones who cannot afford higher fees.
2. **Education Loans** to students to meet costs of education. It is suggested that these should be low cost loans with liberal repayment terms from various sources (like, banks). The idea is that after they start working they would be able to earn extra and pay the loan back. An element of subsidy from the state may be involved to enable cheap loans to be given. These loans could especially go to the marginalised groups. However, since repayment is involved, there is a bias in favour of market-oriented courses where the possibility of higher incomes exists.

   Income contingent loans are suggested. These loans are to be paid back if the annual income turns out to be greater than the target limit, otherwise not. The government would step in and repay the loan.

   However, the poor are usually averse to taking loans since this can be a big burden on the family in the eventuality of the child not getting an appropriate job or due to some calamity the child is unable to earn.
3. **Graduate Tax:** This could be levied on those who got higher degrees from public-supported universities. In a sense, one is paying back to the nation for what one got when one was studying.
4. **Human Capital Contract:** In this scheme, students are treated as stocks that would pay a dividend. Thus, students pay a portion of their future salary for a fixed period of time.
5. **Voucher:** Instead of paying the institution a subsidy, the students would be given vouchers and they pay them to the institution they study in and the institutions would encash them from the government. This is supposed to foster competition in the market and the institutions would compete to get the students and improve their quality. The students would be free to choose courses and have the flexibility that is currently missing. School Education in UK is like this, but a little of segregation is begin-

ning to take place with the privileged preferring one kind of school; the under-privileged have no choice but to go elsewhere.

6. **Charity:** Funds could be raised through charity and philanthropy. This is a big source in the US with the alumni of the institution contributing substantially. In India this has not picked up to any significant extent except perhaps in the IITs. In the case of the USA, due to the high estate duty, the individual cannot easily pass on a huge sum of money to the inheritors of the Estate so people donate a large part of their property before their death. In India, where the Estate duty is hardly there and people tend to be more family oriented and wish to pass on as much as possible to their children.
7. **Intellectual Property Rights:** It is being suggested that institutions go in for this in a big way to raise resources. Many institutions have now set up cells for this purpose. However, this depends on the dynamism of the research in the institutions. Further, if the public funds that the institution was getting get reduced if one earns through other sources then there would be little incentive to earn more.

Chapter XII

Conclusion: Understanding the Continuing Disruption of Indian Society and Economy

"Our opportunities are great but let me warn you that when power outstrips ability, we will fall on evil days. . . . From tomorrow morning, from midnight today we cannot throw the blame on the British."

— *S. Radhakrishnan. 14 August, 1947, Constituent Assembly. Speech on "History and legend will grow around this day"*

1. Colonial Disruption and Its Persistence After Independence

Problems in society call for explanations. When many things simultaneously go wrong, there is a need to understand whether there are independent causes for each or a common underlying grand theme which ties them together. The book points to the latter and identifies the cause as the continuing disruption of Indian society from colonial times and argues how this continues to impact the post-independence economy. The impact is visible in the nation's lack of serious concern for its future and its inability to identify and face its long-term challenges due to the inability to generate relevant knowledge. This, in turn, is identified as a consequence of the inadequate focus on education and its content. Thus, it is suggested that there is a vicious cycle of disruption of society, state of education and knowledge generation and this adversely affects all aspects of the nation's life. For instance, persistence of poverty, growing acceptability by the ruling elite of inequality and the large scale destruction of the environment are signs of stunted dynamism of society, which is failing to see what this signifies for its future.

It is argued that just because India attained political independence it did not mean that it started on a clean slate and that all would be automatically well. The impact of colonial rule has continued and analysis must take this into account. Political freedom is an important precondition for big change but in itself inadequate. For instance, freedom did not mean that India embarked on an independent path of development — it voluntarily chose a largely dependent path. The Indian ruling elite due to its disrupted con-

sciousness accepted copying the West (almost entirely), defined it as progress and even called it an independent path of development.

It is education (its content) that helps one to distinguish between true dynamism (long-term) and apparent dynamism (short-term). Only in a short-term limited perspective can a 7% to 9% growth rate by itself while ignoring the accompanying growing inequity, rising alienation and environmental destruction be taken to constitute dynamism. It is education that can potentially create a national perspective, which may enable the citizens to understand that this is not desirable. Gandhi understood that growth alone cannot be the content of independence for the vast majority of the countrymen, but he was marginalised within the Congress party by the modernisers (led by Nehru). It is the prevalent education system that has reinforced both this limited vision and the perspective of the Indian rulers who voluntarily chose a path of dependency after 1947.

India has made considerable progress in material terms since 1947 but major problems persist, like poverty, illiteracy and ill health. The underlying reason is that many of the changes are on the surface so that there has been a substantial continuity from the colonial period. For instance, the bureaucracy, the police and the judiciary have largely retained their former roles of being masters and not transformed to being public servants. Rural life has remained substantially feudal. Further, the feudal attitudes of the leadership moderated by the pressures of the national movement had not become sufficiently democratic in character by 1947 so that the retrogression was quick and the gap between the rulers and the ruled grew. The rapid decline of the quality of leadership after independence was a consequence of their disrupted consciousness, which led to a limited understanding of democracy and independence. The leadership went in for wholesale copying of Western modernity, which resulted in technological modernity without the social transformation. For instance, while fancy cars run in the cities and the elite live in luxury, their consciousness seems untrammelled by the persistence of poverty, unhygienic conditions of living and child labour. Minimum wages have been largely on paper and MGNREGS has officially jettisoned them — dignity of labour, an aspect of modernity, is alien to the elite's thinking.

At the time of independence, apart from other problems, the Indian ruling elite crucially faced the twin dangers of persistence of feudal attitudes and problems thrown up by blindly copying Western modernity along a dependent path of development. The modernisers saw the first as a problem but not the second because they saw it as a means of overcoming the former. The easy acceptability of the Western path was because (a) it was readymade, and (b) the Indian elite was already Western trained and could not conceive of an alternative path based on indigenous needs. In their framework, they rejected the indigenous in totality rather than think of going for a modernity

different from the Western. This book spells out why this was a serious mistake because it meant the continuation of disruption, further loss of dynamism for society and copying of non-solutions, which cumulatively led to other serious problems.

It is argued in the book that India has been globalising for a long time and in the abstract, there is no problem with it. Difficulties arise with its specificities and its social impact. Since around 1750, the start of the colonial period, globalisation has increasingly become one-way and led to severe disruption of the Indian society. Influences increasingly became unidirectional and the earlier largely two-way characteristic of globalisation slowly degenerated with consequent loss of dynamism in society, and that persists till today. It is this one-way globalisation that has continued after 1947 also and is a part of the problem.

It is not that all problems began in 1750 or that the British are to be blamed for everything. In fact, if all had been well, perhaps India would not have become colonised. As Tolstoy wrote, it is not that the British won but that Indians allowed them to come and rule over them (Gandhi, 2006: 151-2). Thus, one needs to go further back in history to understand what had been going on in India even before 1750. Methodologically, it is argued that the colonial period incorporates the dynamics and the impact of the problems from the prior periods and constitutes a break-point so that the earlier periods need not be incorporated separately for our study of the post-independence Indian economy. Thus, while the attempt is to not be ahistorical the book is also not a historical narrative. There is a selective (as is often the case in economics, where analysis is based on stylised facts) and not an exhaustive presentation of the historical developments.

It is argued that Britain was interested in the control of India to serve its own interest and not that of the Indian people. Policies were initiated keeping this in mind, like, critically, giving low priority to education and neglecting S&T. What Colonel De Pree, Surveyor-General, told the Public Service Commission of 1891 is indicative (*see* quote Chapter XI, Section 2)

A sense of inferiority was sought to be created amongst the Indians, including the elite sections. This severely disrupted the consciousness and dented the dynamism of the Indian society and its people. While a few individuals can always do well and be dynamic, the vast numbers that were impacted (and continue to be affected) by these policies have suffered. It is pointed out that a key aspect of this loss of dynamism was that for a couple of centuries, ideas came from the West and changed our lives almost completely from the big to the small — from the toothpaste to the way we travel or communicate or dress or the sports we play or the link language we use. The loss of value of ideas in society, already evident in the pre-British pe-

riod was accentuated, leading to our acceptance of copying the West as our definition of success.

Our small ruling elite at the time of independence was Western-oriented and considered it desirable to copy the Western notion of modernity and progress. Macaulay (1835) has written in the Minute, on Indian Educations:

> "We must at present do our best to form a class who may be interpreters between us and the millions whom we govern; a class of persons, Indian in blood and colour, but English in taste, in opinions, in morals, and in intellect."

The elite more or less internalised a sense of inferiority that the colonial rulers propagated and this is captured well in the following quote from Macaulay (1835):

> ". . . a single shelf of a good European library was worth the whole native literature of India and Arabia. The intrinsic superiority of the Western literature is indeed fully admitted . . . ." Further, "It is, I believe, no exaggeration to say that all the historical information which has been collected from all the books written in the Sanskrit language is less valuable than what may be found in the most paltry abridgements used at preparatory schools in England. In every branch of physical or moral philosophy, the relative position of the two nations is nearly the same."

It is the political and the economic aspects of a deteriorating situation in the Indian sub-continent that led the elite to fight for independence but the broader impact the colonial rule created was so deep that a truly independent path never became its goal. It is argued that not pursuing an independent path led to a societal crisis by the 1960s, which aggravated over time and the chosen path of limited independence was finally abandoned in 1991 in favour of an even more dependent path. The ruling elite by then had become so crisis ridden that it could not conceive of independence of thought.

It is often argued that the British gave much to India. That prior to the British rule, there was no India. The British are credited with setting up institutions of a modern nation and introducing modern technology in India. What is forgotten is that they did all this for their needs while India was incidental. Further, much of what they did (such as in setting up the bureaucracy or in introducing the railways) has actually set India back for long.

Finally, it is not that India on its own could not have evolved what the British created here. After all, the British were also backward and did not have a ready made path laid out by someone else to overcome their backwardness and overcame it through their own effort. Can it be argued that we on our own would not have evolved over time (if we had not been colonised)

and not been on a different trajectory than we have followed since 1750? Post-1947 developments in India suggest that nations can develop materially if left free; our difficulty has been that we have chosen a path of dependence.

One also needs to consider that the US became free of British control roughly when the latter was extending its control over India in the 1770s. The people of both countries belonged roughly to the same stock but the former did not want to be a colony because of what it implies. It wanted to chart its own course in spite of the hardships that were implied in an indepndent path. Similarly, Europeans did not colonise each other even though they were in close proximity (and not across oceans) and small in size (compared to India). They fought rather than become colonies of the bigger nations because of what that implies.

How is disruption to be understood (Also see Preface, Section 3 and Chapter II, Section 5)? By its key elements:

- Society's continuing inability to value ideas and the consequent loss of dynamism resulting in the uncritical acceptance and copying of Western modernity and the negation of any possibility of an Indian modernity.
- The weakening of the social relations between the rulers and the ruled and the desire of the former to link up with the global elite. The structures of control of the people set up by the colonial power have been largely retained. All these have translated into weakness of democracy and of the leadership in India. The persisting feudal mindset of the ruling elite has made the situation worse. In turn, these features have undermined the various institutions of society. The result is the weakening of India *vis-a-vis* other nations.
- The aggravation of divisions within society along caste, regional and communal lines, because of the policy of "divide and rule" practised by the colonial power. The impact of this colonial policy continues to affect relations with neighbouring countries.
- The enduring poverty, backwardness of agriculture and industry, weak social and physical infrastructure and deficient R&D so that innovation is lagging behind in society.
- And, the growing black economy, which undermines social functioning and reinforces disruption. It results in the persistence of the drain of wealth during colonial times *via* flight of capital. This continuing drain of surplus leads to lower rates of investment in the country and to slower development.

2. Methodological Aspects Highlighted by the Analysis

The book presents economics as a social science with its inter-linkages with history, sociology and politics not only at the national level but also at the international plane. The last aspect is crucial because colonialism originated in that sphere and the current world situation continues to have a strong influence on Indian society in every conceivable way.

When a critique of the Western path of development is offered, it is usually situated within the framework of Western modernity. The idea has been to make capitalism more acceptable through the government welfare measures, minimise environmental damage, cope with social problems (like breakdown of the family and growing atomisation) and so on. Faith is placed on technology's ability to solve society's problems without considering that it has itself become the source of many problems. For instance, rapid technological change leaves little time for society to evolve the appropriate social institutions to deal with the consequences of the change. Tribals in India are a case in point. They have given up many of their traditional practices but do not know how to use the modern technology that is rapidly penetrating their society. This has been true for indigenous people everywhere (whether in the US or Australia). The elite Indians are not untouched by rapid change and associated problems of survival of families, child rearing and so on.

India is constantly confronted by the dangers and problems of its dependent development and increasingly facing a multidimensional crisis even if it appears to be growing fast. Diamond (2005) points out that "collapse" can come rapidly once society overreaches itself and the tipping point is crossed. There is no advance warning of the impending collapse and society may think that it is doing well and, therefore, sees no reason to change its path or take preventive steps. The sudden collapse of the Soviet system and East Europe in 1989-90 is a case in point. Even in 1988, no one could anticipate or predict it. The same was true of the Shah of Iran in 1979. In ancient Greece, Athens collapsed at the height of its glory. History is replete with such examples.

Theories of capitalism imply that exploitation is "natural". Formulations based on Centre and periphery suggest an unequal relationship and that the colonies were exploitated by the Centre. The idea of disruption goes beyond the idea of economic exploitation and focuses on dynamism and its loss in society, which is the pre-requisite for a nation to do well. The focus is on the loss of internal dynamism and the inability of the nation to solve its problems in spite of the political freedom.

It is argued that there are many schools of thought in social sciences and they have a deep impact on economics. Thus, several theories contend for space to provide differing explanations for the same phenomenon. Which

one is correct or incorrect has to be determined in relation to the wider social understanding and goals. Usually, it is the ruling elite that defines concepts, based on its perceived self interests. For instance, scarcity of resources is defined in terms of the elites' desire to increase its consumption. As far as the majority of the nation is concerned, its basic needs (food, education, health and so on) can be met with the available national resources (manpower, technology and capital). But, if the goal of businesses is higher and higher profits, then it tries to sell more and more by promoting consumerism — needless consumption and waste. Then, of course, society will face a shortage of resources.

Under the circumstances, greater exploitation of both labour and environment become legitimate and unemployment and poverty are deemphasised by theory. Continued existence of a large unorganised sector and a reserve army of labour that keeps labour weak become acceptable. Divisions in society and creation of labour aristocracy are legitimised. Economics justifies all this in the interest of businesses. That is, continuing weaknesses of society are none of the concerns of capital and of economics and rather than eradicating them for emancipation of society they are accepted as a reality about which nothing need be done. Economics based on marketisation devoid of social specificities, history and social institutions currently rules the roost as pure economics. How people's attitudes are formed historically and how that affects social functioning is ignored in analysis. All this gives the impression that like in the sciences, economic laws are universally valid for all times independent of history and social institutions.

Empirical work ought to mean study of the economy as it is but this is also illusory. Data are not just numbers but underlying them is social functioning (including government and policies) and institutional setting within which they are generated for a certain purpose. That is why they may deliberately exclude certain important aspects of social functioning. For instance, to show lower poverty, the poverty line may be defined in such a way that many of its critical aspects may be ignored and the data may also be collected in such a way that many poor are left out of its ambit. It is an aspect of being homo-economicus that the social aspects of data may be ignored and treated as a pure number with which one can then play around, statistically and econometrically. Unfortunately, it limits the scope of the analysis and does not illuminate how the situation may be changed for the better. It is through the human agency and the societal changes that a transformation can be brought about; numbers themselves will not change on their own.

In this book, it is suggested that the initial point from which analysis of any problem is started may determine the results and the conclusions. That is why the history of the nation is important for analysis but most economic analysis ignores this. Often, the choice of the starting point also changes the

formulation of the problem and the categories used in the analysis and that limits the understanding of the problem and, therefore, the solution. For instance, in a short-period analysis, no big change is feasible and one is restricted to minor changes — one can only act on limited variables since all others are fixed as parameters.

In the long run, the parameters can be turned into variables which can also change to produce bigger change. For instance, a nation's leadership characteristics can change over time but not immediately. Over the very long period, again more constraints appear, given the present technology and uncertainty of the future. Consequently, the short-run and the long-run solutions differ and the former turn out to be non-solutions. For instance, in the short run, traffic congestion can be tackled with broader roads and flyovers but in the long run, this is not a solution and the need is for decentralised urbanisation and public transportation. Another example is of education, the cost of which can be calculated in the short run by ignoring its richness, which can only be appreciated in the long run. Thus, the nature of the problem changes depending on the time-frame adopted by the analyst.

The importance of the initial point also explains why one cannot copy what another nation is able to do. Given the differences in the initial points between India and China or Africa and India they cannot copy each other. People's beliefs are historically conditioned so what one society believes is feasible another may think is not. Indians having faced colonialism are suspicious of foreigners and reluctant to part control over their resources. Other nations that have experienced mild forms of colonisation may not be as suspicious. China has not faced the kind of colonisation that India went through and retained to a greater degree the national concerns and the link between the rulers and the ruled, unlike in India's case where these ties almost dissolved. Europeans have not experienced this kind of colonialism in recent history and, therefore, can neither understand the concept of a disrupted society nor theorise about it the way Indian analysts may be able to (but mostly do not).

India, as a large and democratic society, has tried to copy others, say, the material progress in Europe or post-1991 the model thrown up by China and S. E. Asia. It is argued in the book that societies, and especially the large ones, cannot normally replicate the path followed by other nations. Apart from the initial point being different, the existing conditions differ for each nation and above all the historical conjunctures are different. During their industrialisation, the Europeans had their colonies to extract surplus from and they had the Americas to send their surplus labour to — something not available to India. Worse, there is a disadvantage of a late start due to the disruption which was not the case for Europe.

It is argued that for small countries charting an independent path is difficult (like, for Cuba or North Korea) but not impossible as Bhutan shows. Further, smaller countries can do well materially despite disruption by copying Western modernity, like in the case of the S. E. Asian economies. Further, it is also possible that India can, over a few hundred years, catch up with the West or as China is trying to do, beat them at their own game. As Deng Xiaoping said, how does the colour of the cat (black or white) matter as long as it catches mice? Meaning that we need growth and it does not matter how we get it. This is a short sighted approach and contrary to what Gandhi said about ends and means. The means we adopt can change us and then the end itself changes, so we never achieve what we set out to do. The relevance of the goal we set out to achieve itself changes. This has happened in the case of China and also in India. In our attempt to copy Western modernity we have lost the chance of having an independent path of development. The ruling elite does not even recognise that the path chosen is detrimental to a majority of the population — not the goal in 1947.

China has paid a heavy price for following the strategy of copying the West and going for "growth at any cost" (after the mid-1970s) and even the leadership is worried at the difficulties this path has created. China is able to deal with its growing problems because it lacks democracy. Today, many Chinese do not seem to care for their past, especially, the youth. Is it worth being a clone of someone else? Is that what India wants even if its elite wish only for that?

China under Mao tried an independent path of development because he felt its circumstances were different from those of the Soviets and the West. Mao rejected the tutelage of its ally, the Soviets, as much as that of the West. He did not mind placing China behind a bamboo curtain, isolated from both the dominant blocs and tried to build its own bloc. At that time it had rudimentary technology and was militarily far inferior to both the super powers. The point is, if India could overthrow the British colonial rule without any army, then how can any nation subjugate it if it has the political will. In other words, independence is primarily a political question and then only a military one. Tiny Vietnam or Afghanistan taking on both the super powers shows that in the present age, occupation of another unwilling people's territory is not feasible.

However, after Mao, there was an impatience in China about catching up with the West and the independent line was given up so that China has rushed headlong along the Western path. So, it is no more a question of catching mice but what is the cat catching, certainly not mice. The cat seems to be trying to catch a tiger and is in danger of being swallowed up completely. The goals have changed because the means are not correct.

3. Theoretical Aspects of Disruption

The book presents many facets of the Indian economy but given its complexity and sweep, the picture is far from complete. In this sense, the attempt has not been to give a complete account but to present the most important aspects that could show the impact of the colonial disruption of Indian society on post-independence political, social and economic developments. In the book, economic problems are analysed not in isolation but with their social, political, historical and international linkages. The idea is to adopt a holistic approach.

The book shows how various features of developments mutually reinforce each other and camouflage disruption. What exists appears to be the normal state of affairs and, therefore, no cause for worry. This deceptive appearance leads to the belief that no basic change is needed and some tweaking of policies will solve the few problems there are.

What does society consider to be progress? It is argued that this can only be defined in the long term and in terms of its impact on people and their social relations. It has to be sustainable. Temporary good growth later resulting in a collapse (like in Sri Lanka in the late 1970s or in Ireland and Iceland in 2008) or that which results in the alienation of the citizens cannot be taken to be social progress. The short-run has to be geared to the long-term requirements, otherwise a crisis would ensue. The idea that "we are all dead in the long run" is not a collective notion but an individualistic one, hence, irrelevant to society which has to survive over the long run. It is pointed out that all real problems of society are long run. That is why distribution and environmental concerns are critical but the ruling economic orthodoxy and the neo-classical framework, do not take these into account and, therefore, there is growing global strife rather than sustainable development. This can hardly be termed as social progress.

3.1 Causes of Continuing Disruption After Independence

3.1.1 National

Successful globalisation depends on generation of ideas and carrying on high quality R&D. However, India lags far behind the world leaders because it lacks in R&D and the quality of education is mostly indifferent. People could have been our biggest asset but have been turned into our limitation because of a lack of vision.

How well a nation does depends on its use of its available resources and the most important element is the human — its training and productivity. If people are largely alienated due to their exploitation, they will not voluntarily contribute to the building of the nation. This requires an independent path of

development since all the currently available ones are based on the exploitation of a mass of the people by a small number of the ruling elite. Along such a path one may think of progress not as more consumption but as greater opportunity for self expression by all individuals. Such a path depends on the nation's view of itself and its overcoming of its colonial disruption.

The most visible consequence of continuing disruption is the vastly uncivilised conditions in which most Indians live. It is argued that it is not that resources are short to eliminate poverty and illiteracy or minimise ill health but these are not being effectively tackled due to the self-centred attitude of the ruling elite and this expresses itself as a lack of political will. It is pointed out that poverty is a matter of social perception and not just an issue of defining an appropriate poverty line and, therefore, space- and time-specific. For instance, as marketisation and consumerism have taken deeper roots in society and inequity has increased, social perception of poverty has changed. There are geographical and cultural factors also that impact it. Tagore (1960) wrote:

> "Whatever we may say, what we understand by the country is the country of the gentlemen. We call the common people the lower classes; this definition has entered our very marrow. All standards are low for these so-called lower classes! . . . they move in the shadow of the gentlemen; their presence is indistinct and yet they form the majority; in other words, ninety five per cent of the country's population is in the dark." Further, ". . . we cannot help being unjust to those whom we have kept low. From time to time, we collect money in their name, but to their share fall words, the money finally come to people of our own class. . . . We live in the same country and yet we do not belong to the same country . . . we are strangers to our country. . . . That country is invisible and intangible to us. When we loudly call our country mother, . . . that mother is the mother of a few spoilt children only."

It is this mindset that accepts that the well-off can achieve international standards of consumption for themselves while the poor stagnate till the trickle down takes effect. Thus, there is a pre-emption of resources by the well-off (like with concentrated urbanisation) and only the residual is left for the poor. The elite cannot conceive of a strategy in which if the poor are lifted up first that would lift everyone else also. Usually, poverty is narrowly viewed as an economic matter but that is inappropriate both for studying the subject or finding a solution for it. Key factors perpetuating poverty are identified as employment generation, education, organisation of production and finance and the way political power operates. Given this multi-dimensional process underlying persisting poverty, only a holistic approach,

which is inter-disciplinary can tackle it. New knowledge not in the abstract but based on praxis is required so that the consciousness of society and especially of the ruling elite changes. Praxis not only leads to new insights into the problem but helps propel action.

The underlying basis of policies for eliminating poverty has to be political and economic as enshrined in the ideas of democracy, equality of all and social justice. Gandhi's idea of "last person first" incorporates these principles. It would establish true democracy based on linking the theoretical and the practical. The prevailing notions of justice and, especially of economic justice, in our society have to be related to the situation on the ground. Similarly, when thinking of empowerment, the nature of the current democracy comes into question since it permits the majority to be disenfranchised right at the outset.

Consequently, the nation faces a wide variety of problems since the dominant philosophy (no matter what the rhetoric) is to take care of one's problems first and then consider other things. This is true of the elite, consisting of the political, the business and the middle classes. So, sacrifice for the larger good is unthinkable for them.

The colonised mind of the elite in a disrupted society results in loss of dynamism. The best known intellectuals are largely either those linked with the moneyed and / or those in power or who are considered "good" in western terms. They are "derived" intellectuals who borrow ideas from the West and recycle them in the Indian context even if hardly relevant. Large numbers of scientists and researchers are co-opted by either the government or the corporate sector or both so that few academics in India are independent thinkers. Most are trapped into promoting their careers and keeping the powers that be happy. The most dynamic elements of society, the independent thinkers who attempt to generate relevant knowledge, are often marginalised by the other two groups and also the ruling elite, who see little use for independence in thought. Those with money power or political power, and the two are increasingly linked up, are the ones who rule for their narrow interests. They can get by with borrowed ideas since their vision is limited and society with its feudal make up respects power more than ideas. Those in power also think of the nation in limited terms and anyway new ideas are risky, and hence are to be avoided. Thus, the disruption continues and dynamism remains suppressed.

The elite are happy with technological fixes for the nation's problems like, poverty or inflation, since they cannot even contemplate any temporary or hypothetical sacrifice on their part. Further, modernity remains technological with little social content and this results in India borrowing the West's non-solutions, which become even more of non-solutions in India

with its vastly different social setting. For instance, copying high-cost concentrated urbanisation in a poor society has led to:

(a) a state of collapse in most urban centres with people forced to live in uncivilised conditions, and
(b) pre-emption of resources available for the rural areas, which have almost non-existent infrastructure.

Consequently, there is little employment generation in rural areas and people are migrating in large numbers to urban centres, accentuating the problems.

Another example is from the field of knowledge generation. It is not suitable to simply copy from the advanced countries institutions like the UGC and CSIR labs. Similarly, having high standards in education has been confused with standardisation, thereby undermining higher education, which needs diversity and not homogeneity. Given the qualitative nature of education, standards are undoubtedly important but have to be set by the peer group and individuals motivated to excel. This requires the peer group to be self-confident and independent in thought but that is lacking in the country and we face a Catch 22 situation.

Education is key to nation-building. It affects everything else more critically than any other factor. It determines both the current and the future developments in society. The content of education is critical since it can be used to propagate dependent development as has happened since the colonial times. Education is not neutral and has national specificities due to the stage of economic development, history, culture, language, geography, etc.. The impact of two hundred years of colonial education was that while the nationalists fought for political independence they also hankered after Western modernity and adopted it as the ideal to be copied and the yardstick of success. Even as great a poet as Mirza Ghalib was a victim of the British lures (*see* Chapter XI). One who was so conscious of the people's suffering and the finer points of life was oblivious to the link of these with the colonial rule. Independence is not just a political act in its narrow sense but also requires a liberation of the mind and the imagination of the people.

After independence, rather than formulate the content of education on independent indigenous considerations, the Western model was adopted. The still surviving rudimentary indigenous systems of learning were considered to be backward and incapable of dynamism. So, these had to be given up. After 1991, copying has been reinforced by the market, which is overwhelmingly determining choices all around. Since 1991, many Commissions and Committees have been set up in India, which have recommended marketisation and copying of the Western model of education. They have been innocent of independence in thought and the critical role of education in society.

The task of higher education is to take the young generation to the cutting edge of knowledge and to prepare them to advance knowledge beyond the existing frontiers. Since producing excellence is a random process, if all else is the same, the more the numbers in higher education greater the chance of it flowering. However, with privatisation sweeping the country and education costs rising, this may be a receding goal.

Education has three important characteristics. With large set up costs it displays some economies of scale, has associated externalities and is a merit good. Each one of them causes market failure and for each one of them, neoclassical literature suggests that to attain optimality government intervention is necessary. Markets are inadequate.

The heads of institutions of higher learning are the Vice Chancellors, Directors and Principals and their functioning is crucial for education. They are usually chosen not for their intellectual ability but other reasons — administrative ability, links with the politicians and so on. Thus, most of them function like bureaucrats for whom the intellect of their faculty becomes secondary to managing the institution. As a result, mediocrity and compliant behaviour is promoted to the detriment of academic autonomy and excellence. Often, cliques emerge around caste, region and community and excellence is marginalised. The academic bureaucrats in charge of higher education hardly understand that "dissent is the essence" of higher learning and, instead of promoting it, consider it a malaise to be eliminated.

In society, a long-term view can be taken by the academics but not the politicians, the bureaucrats and the businessmen who cater to immediate concerns. Autonomous academics, not tied to any vested interests, can hold the mirror to society by raising questions. However, it cannot be piecemeal — from time to time — and that is why autonomy of academics is crucial. If they are caught up in chasing a career which depends on the powers that be, then autonomy gets compromised. They are the only ones who can restore dynamism in society by providing new insights into problems and finding relevant solutions which are not a copy of someone else. Unfortunately, the ruling elite thinks that autonomy stands for license to not work and undermines it by setting up bureaucratic controls.

The academic community has to be accountable but the question is to whom and over what time-frame — certainly not to the bureaucrats or the politicians but to the long-term interest of society. It is pointed out that accountability and autonomy are inter-linked and not separate issues. Autonomy implies that academia has to be independent of the state as well as money power. In the marketisation framework, where work is drudgery and shirking it is rational, a penalty would minimise shirking while a monetary reward would make the individual work harder. For a good academic, these assumptions are of limited validity — work is not drudgery and people do

not primarily work for a reward but because of the satisfaction it gives them. The argument is not that currently no one is creative because of limited autonomy to academics but were it to increase, creativity could be far higher.

Society is faced with the problem of chicken and egg. It has come to expect little from higher education in the country which then underperforms. Society bypasses the institutions of higher learning to go abroad for ideas and, therefore, does not accord them the appropriate status. Disruption distorts society's view of education which leads to further disruptions in a vicious cycle. Those in the education field are as much victims of the disruption as those outside it but the capacity of the former to break out of it is higher so the onus is on them to correct it. For this, they have to stop being "derived intellectuals" and challenge the feudal mindset that prevails in their institutions and in society. They have to make education non-alienating, of high quality and accessible to a much larger population.

3.1.2 Global Factors

A nation's international perspective is based on its understanding of itself. Post-1947 India's international perspective changed somewhat due to the impulses of the freedom movement but these weakened quickly. In the 1950s, the nation was caught in the prevailing Cold War perspectives. Economics and politics are as intertwined at the international level as at the national. For instance, nations are interested in capturing other's markets and gaining control over other's resources. Thus, clarity at the top is crucial and lack of it translates into national weakness. With levels of corruption being as high as they have been, senior functionaries of the ruling elite have been suspected and accused of selling national interests. The same set of people move in and out of the major institutions in India and the international agencies and often it is not clear whose interest they represent.

The ruling elite faced a contradiction due to the global strategic interests of the super powers. Up to the 1980s for strategic reasons they had to accept the Soviets as an ally but they did not accept its system as their ideal to emulate and instead looked up to the West. The business class did not like the equity-oriented policies followed after 1947 and not only called them socialistic policies (which they were not) but attributed them to the closeness to the Soviet influence. These sections of the ruling elite have been nudging India towards the Western bloc. The West has pushed its interest both directly and through the international institutions, which were set up to guide the free market economy in the world. India's relations with them have been one-sided. They have mostly perceived India to be weak and at times a basket case.

India's neighbours have viewed it with distrust, as a big brother. This has resulted in social tension and bloodshed in the region, which has been an important reason for the South Asian sub-continent to be one of the most underdeveloped regions of the world. This reflects a lack of perspective of the ruling elite in South Asia due to the continued colonial disruption which allows the imperial mould of thinking to persist.

It is often said that India was a closed economy till 1991 but this is not correct since the ratio of trade to GDP was the same as for USA and Japan. What was true was that from the 1950s to 1991, the focus of the economy was the home market and not exports. Due to backwardness and difficulties in catching up it is hard to face foreign competition from the advanced nations. Since India did not develop the capacity to absorb and develop technology it became permanently backward and found it hard to catch up. The ruling elite is not able to answer the question as to what should an economy produce, what should it import and the resource cost for the economy either of that production or of import? Hence, there has been confusion on the path India should follow with regard to the degree of openness of the economy. It is not in the abstract that a relatively open economy will do better and a relatively closed economy will do worse, this depends on the national policies. Post-1991 exports have risen but so have imports, so that the net exports are not as large as the gross figures signify. As such, India has not benefited from any major export stimulus as yet (unlike China). It is in the case of invisibles that the country has done better (like in software) predominantly because of its cheap labour. Foreign investment has increased by leaps since 1991 but this has had associated costs in terms of hot money flows and destabilisation of the economy to an extent.

It is argued that India is undergoing one-way globalisation since around 1750 and its different phases are in evidence in the post-independence period also. Its latest phase since 1991 is one of marketisation meaning that the philosophy underlying markets has seeped into the various social processes. Underlying marketisation is the idea of individuals maximising their physical welfare to the exclusion of all else. Market outcomes are considered to be "objective" and desirable while social outcomes are considered to be "subjective" and less desirable. Further, it is based on "consumer sovereignty", which involves psychological factors, outside the control of individuals. No distinction need be made between essentials and inessentials in society. Everything is a good or a service. Marketisation is based on "dollar vote" and "more is better" that have resulted in the marginalisation of the marginal and growing consumerism. Since the markets have no values of their own, they tend to be amoral and immoral. Finally, since they justify optimising one's gain as a goal, greed has been raised to a new high pedestal and people act as homo-economicus.

At the time of independence, in most cases, the influence of the colonial masters over their former colonies remained strong. There were considerable complementarities between the economies of the former masters and the colonies, including the investments by the companies of the coloniser. Aid was not an obligation but an instrument of continued control to keep their former dependencies in line and protect their national interest. Clever aid givers seldom transferred the capacity to learn and absorb technology. The aid received from the Soviet Bloc involved transfer of technology. It has been argued in theory that fair trade is far more important than capital flows, whether as aid or private capital invested in a developing country. Trade has not been innocuous and definitely not fair.

The Bretton Woods trinity of World Bank, IMF and the former GATT, which since 1 January, 1995 became WTO has played an important role in the development of world capitalism. It is not that the World Bank has pursued one line all through the last 66 years. Its policies have changed as the global needs of the developed countries changed. The changes in policies were also linked to the changes in the global role of the Soviets and the Chinese. These factors led to the "one size fits all" framework irrespective of country specificities. These institutions have built strong internal lobbies amongst the ruling elite of the developing countries to push their agendas.

GATT was set up to govern trade in industrial goods. The West was not happy with this limitation and pushed for the opening up of the other markets also and succeeded with the creation of WTO. The option before the developing countries was to be either coerced multilaterally inside the WTO or quit it and be bilaterally coerced in negotiations with individual advanced countries. In the second best situation that the world is in, unilaterally opening one's market (the ideal of free markets) in the world is an invitation to getting one's economy flooded with foreign goods and services. The game at WTO is how to get others to open up their markets with the least opening up of one's own markets.

An important aspect of the functioning of the trinity of the Bretton Woods institution is that there are cross conditionalities between them. If during a crisis in BOP a nation goes to the IMF for assistance it also has to go to the World Bank. So in addition to the conditionalities of the IMF it also has to fulfil those of the World Bank. WTO is about opening the economy and so are the conditionalities of the other two.

Opening up changes the priorities of the economy and makes policies market-determined, so that they are even less in tune with the needs of the marginalised sections that lack purchasing power and, therefore, the capacity to affect the markets. The Indian capitalist classes were not unhappy at this change in 1991 due to their own contradictions and their lack of a wider perspective. It needs to be clarified that it is not globalisation *per se* that is at

the root of the problems the marginalised Indian faces, rather it is the kind of globalisation — One-way. Similarly, the criticism here is not of the existence of markets but to the process of indiscriminate marketisation that society is subject to.

3.2 Impact of Colonial Disruption

To overcome disruption, one has to understand the concept itself to deal with it at the societal level. A prerequisite to such an understanding is an independent educational set up from schools upward. Major investments in R&D to absorb technology and adapt it to our own needs and not ape the West are required. That is when the "disadvantage of a late start" would turn into an advantage. The disruption in our consciousness which has set back knowledge generation, limits the nation's ability to generate ideas and turns its thinkers into good followers.

What a country or a society does depends on what it believes in and what its people think of. That determines the priorities for action, and in this sense disruption in thinking about ourselves and our nation, created by the colonial masters has been critical. That is why the content of education and politics are critical. For instance, due to the copying of Western modernity the nation has followed a path which is both capital- and energy-intensive even though the country is short of these. Reservations for SCs and STs, a positive measure to correct a historical wrong, has lacked content so that not only has this policy failed to solve the problem even six decades after independence but has complicated the situation. Further, it is argued that consumerism is an integral aspect of Western modernity and our elite uncritically copied it, resulting in resource shortage and environmental degradation at low levels of total consumption. The apparent resource shortage weakened the national resolve to develop independently and ultimately the leadership succumbed to foreign pressures to pursue a different set of policies. The impact on the environment has had serious effects on people's health, especially of the poor and raised the cost of living all around. It has pushed resources into health related activities.

It is pointed out that inflation is built into the development strategy adopted. So, even during the period of import substitution and relatively closed economy before 1991, every time there was a global crisis, like recession in the early 1980s or the oil crisis in 1973, the cost of raising capital rose directly (high LIBOR) or indirectly (following conditionalities and devaluation) and energy prices went up. Both of these impacted the Indian economy adversely and raised the level of inflation. The global strategic considerations of the big powers and their fostering of antagonisms in S. Asia to keep India weak led to continuing tensions and wars with neighbours

and impacted our development expenditures and further raised inflation. It is argued in the book that the developmental path adopted led to a regressive fiscal policy regime which also raised the inflationary potential of the economy. In brief, apart from internal factors, like drought, which impacts inflation, it is affected by international developments because of the uncritical pursuit of Western modernity. Hence, inflation in India is not just a monetary phenomenon. Further, the complexity inherent prevents a meaningful econometric analysis, which can only yield limited results and understanding. Inflation has to be dealt with as a complex social phenomenon, both in terms of causes and consequences.

3.2.1 Phases of the Indian Economy since Independence

The book depicts how events have repeatedly spun out of control of the Indian ruling classes in the last sixty years. They began with a narrow focus on their self-interest and it has become even narrower so that the vision of the national movement has blurred and this is detrimental to the national interest. In effect, independent India has gone through a full circle of policies after 1947 from collective responsibility to leaving the citizens to fend for themselves.

The 1950s laid the ground for how independent India would function and the policies pursued had many achievements to their credit. This was not only due to the low base from which India began but importantly, because the colonial yoke was thrown off and drain of surplus from the economy stopped. However, these policies based substantially on copying Western modernity were focused on trickle down and big projects, needed to catch up with the West. In the 1960s, this strategy started unravelling and the country went from crisis to crisis in the next two decades. It is shown that these policies were turned on their head in 1991 with the launch of the NEP — a change in policy paradigm. There was a strategic retreat of the state in favour of marketisation so that inequity has risen sharply and another social crisis is looming large. As the social situation deteriorated (since the 1960s), increasingly vested interests began dominating politics and captured power. The ideological moorings of parties have weakened and power has become an end in itself. Politics has become competitive and sectarian, and the leadership's quality degenerated rapidly over time. These political developments have led to economic policy-making passing into the hands of vested interests and against the wider national interest. The number of scams has increased, both in number and size, and the black economy has grown, further undermining democracy and reinforcing disruption in society.

The Indian economy has gone through phases in the post-independence period. These phases have seen the progressive collapse of the strategy on which they were based and as the crisis in society grew, there were new sub-

phases. The beginning of each of the decades saw major challenges for the nation — the China war in 1962, creation of Bangladesh in 1971, the approach to the IMF in 1980 and again in 1990 and the global impact of events of 9/11 in 2001 leading to invasion of Afghanistan and Iraq and the changed world scenario.

People's experiences determine their attitudes and judgements and it is difficult to erase them or change them quickly, so that starting on a clean slate is usually difficult. Hence, however desirable a goal may be working towards it is usually painfully slow. For instance, the conditioning of the elite Indians which leads it to believe in the superiority of Western modernity is proving hard to change. Even though Western modernity has no answers to backwardness, poverty, illiteracy, and so on the elite is uncritically copying from the big to the small and from economic to the cultural. The leaders of the national movement did not anticipate the failure of this dependent path and mistakenly believed that there would be a new beginning.

The elite's inclination for copying from the West was supported (and legitimised) by the available Western theories of development and this helped them reduce their feeling of guilt at the rising inequality. It is pointed out that not only copying is ahistorical but it led to a social crisis and to continuing disruption. Further, it was not only undemocratic, because it marginalised the majority, it resulted in an apparent contradiction between development, environment and democracy.

This line of argument helps us to understand India's difficult fiscal situation for most of the last sixty years. It has led to excessive expenditures due to:

(a) the inappropriate policy framework based on trickle down and modernisation,
(b) the *ad hoc* policy changes (without taking into account the fiscal policy regime), which led to contradictions amongst policies, increasing concessions to the well-off and growing revenue expenditures (interest payments and police), and
(c) the impact of the black economy on the various fiscal variables.

Fiscal policies can be shown to have largely benefited the rich while marginalising the rest.

3.2.2 Is There a Resource Shortage?

In 1947, India started with a belief in simplicity and sacrifice, especially in public life, inspired by Gandhi and the national movement he led. These were prerequisites to the success of the national freedom movement. Even the rich did not ostentatiously display their wealth. All this changed with consumerism making its appearance in 1982 but the real fillip came after the launch of NEP in 1991 and that dented the national spirit as inequality be-

came visible. It is based on the notion of convenience in life but the issue is how much of it? Endless conveniences have a trade-off with responsibility to the future of mankind. As is said, "there is enough for everyone's needs but not for greed".

Unfortunately, the marketising society equates consumerism with progress and Western modernity. For the politicians, it helps divert attention of the majority from the difficult task of nation-building. But this is a limited vision and constitutes a failure of leadership with its disrupted consciousness. It is pointed out that consumerism results in massive social waste and shortage of resources for the development of the poor. Thus, it reflects the nature of society and its priorities. It is also pointed out that waste in society is consistent with profit maximisation for businesses, so not only, do they not see any need to curb it but actually encourage it.

India decided to go for a growing public sector to resolve many of the nation's problems and there was considerable success in this approach. But its goal was not earning profits, hence, comparing it with the private sector on this score was not appropriate. It is pointed out that the nature of decision making in the public sector is inherently different from that in the private sector because of the differences in the social commitment of the two sectors. That is why the two sectors face different sets of problems The mismanagement of the public sector by the ruling elite led to a reduction of its role since 1991. Its problems have to do with lack of accountability and corruption and not anything inherent. The private sector also suffers from similar problems so why is its role being enhanced while that of the public sector is being downgraded? It is pointed out that the issue is ideological, a failed public sector is the ideal advertisement for the private sector because in comparison it looks good and that discredits the idea of nationalisation. privatisation and disinvestment have led to private gains by the ruling elite (as in the former Soviet Union) at the expense of the long-term interest of the country by throwing out the baby with the bath water.

To use resources optimally, planning was introduced, but this process was (a) diluted after the mid-1960s, and (b) used to generate black incomes and create oligopolies, thereby undermining the entire process and giving it a bad name. Planning has reflected the bias of the modernisers and emphasised investment leaving employment to be a residual, thereby strengthening the idea of trickle down. After 1991, with marketisation, the role of planning declined further. Thus, planning and public sector which could have been powerful instruments of rapid development for an underdeveloped economy have only played limited roles.

Due to the existence of a large private sector and the growth of the black economy, the government could not effectively harness the financial resources for national development. For an interregnum when the banking sys-

tem was largely nationalised (1969 to 1991) credit became available to those areas (rural) and sectors (agriculture) where it was earlier not available. However, due to its basic role of channelling savings to businesses, it has mostly led to greater concentration of resources in the hands of a few.

3.2.3 Changing Structure of the Economy

Capitalism is rapidly displacing the earlier modes of production in India but it has taken the form of a highly exploitative primitive capitalism. Just like there is semi-feudalism, which implies modified feudalism, in modern day India there is semi-capitalism, which is part capitalism. For efficient capitalism, good education and skills are important, planning and public sector are useful devices especially if the economy is backward as in India. Greater equity leads to the creation of a wider market but the narrow and self centred attitude of the ruling elite prevented them from seeing this.

The structure of the Indian economy is complex and heterogeneous, unlike that of any other country. Dichotomies abound — organised and unorganised, black and white, rural and urban, advanced and backward states and so on. The workers in India are a highly fragmented lot and their consciousness is far from that of the "working class" so that they are unable to push for their own interest in society and resist the growing hold on society established by capital. Labour is increasingly marginalised because there is a tiny organised sector. The bulk of it is unorganised and constitutes the reserve army of labour which keeps wages down. The most marginalised sections amongst the workers are the Dalits, muslims, women and children and they face severe exploitation.

Agriculture has modernised but not by an endogenous process which could have transformed the old structures into new ones in an organic manner. The holistic practices that had evolved over centuries have been quickly given up lock stock and barrel for the new ones which are applied mechanically with little understanding. Thus, modernisation has not proved to be an undisguised blessing — food security in the short-run but at a heavy long-term cost? Something similar has happened in the other sectors as well with techniques copied rather than evolved over time or borrowed after proper assessment to avoid the mistakes made by the advanced nations. This has raised social costs and created new problems.

There is a structural transformation from a dominant agriculture to a dominant tertiary sector without the industrial sector ever becoming the dominant one, as was the case with the classical development pattern followed by the developed countries. Some argue that this is a sign of maldevelopment. The book points out that even at the time of independence the tertiary sector was larger than the industrial sector due to the deindustrialisation of the Indian economy during the colonial rule. The uncritical copying

of Western modernity — from technology to social and physical infrastructure — required rapid growth of services at an early stage of development because that is what current technology dictates. While there is nothing wrong in directly transiting from agriculture to services the problem is adequate employment generation. The structural changes also led to the increase in the rate of growth of the Indian economy from the early 1980s due to the declining share of the slower growing sector (agriculture). Thus, it is pointed out that the step up in the rate of growth of the economy from 1980s has not been due to the opening up of the economy only as some claim.

As the Indian economy developed, the nature of its foreign trade changed. From being mainly an exporter of primary products, the economy matured to exporting more of the higher value added products. In the category of services, the software industry has done well since the mid-1990s. The largest single item of import is energy, reflecting the rising energy intensity of the economy and its inability to find adequate internal sources to fulfil this demand. India's principal trade partners have been undergoing change. The pre-eminent position of UK in 1947 changed as the US rose in importance. In the recent years China has rapidly become a significant trade partner and dominates India's imports. This highlights the importance of trade with neighbours which had been affected by colonial disruption.

The black economy has played an important role in the trade policy changes. The BOP is significantly affected by smuggling and flight of capital. The black economy effectively made the economy open prior to 1991 leading to difficulties for policy makers who treated it as a closed one. It was pointed out that trade policies have to be complementary to other economic policies. In 1991, they changed with the policy paradigm and in 1995 with the coming into force of WTO, internal policies had to undergo further changes, marginalising the marginalised.

3.2.4 Transformation in Infrastructure

In 1947 the country had very poor physical and social infrastructure. There was a huge gap in infrastructure between India and a developed country, like UK in 1950-51. This was a result of a lack of investment over two centuries of colonial rule. In the perspective of modernity, it was important to close the gap but that required trillions of dollars of investment at current prices and this has not been possible over the last sixty years so that even by 2000-01 India could not catch up with the level of infrastructure in UK in 1950-51. The apparent shortage of resources is due to waste, inappropriate policies and the growing black economy all of which are a reflection of disruption. In terms of policies, the focus on large rather than small led to the need for greater imports and capital intensive development both of which created problems for the country.

Often, infrastructure has scale economies. As these industries grow in size, costs decline and prices fall, thereby leading to further expansion of demand and increase in market size as seen in the case of mobile telephony. This expansion is incorrectly attributed to the opening up of the sector to the private sector and not the nature of technology. At the time of independence, private Indian capital was small in size and could not undertake the scale of investment required in infrastructure. It lacked technology and due to the long gestation period, it was not assured of quick profits. Thus, it fell to the government to set up the modern large scale infrastructure. The situation has now changed with the private sector wanting to set up infrastructure often with concessions from government.

The focus on large scale and trickle down resulted in concentrated urbanisation, namely larger urban centres becoming bigger and bigger. This has brought with it huge challenges, which its glitter is unable to hide — there is poverty, unsanitary conditions and slums. Urban services are expensive and further, the bigger the city the more expensive it gets because of the high land values and the large volume of services that have to be provided and often over long distances. The argument for concentrated urbanisation is that there are scale economies in utilities and, therefore, these could be made available cheaper. But this is not always true and especially, if capacity is reached and costs rise steeply. Further, while individual components of urban infrastructure may show scale economies, the urban systems taken together, including the cost of health due to pollution, time taken to travel, fulfilling daily needs and the decline in governance in a highly corrupt system seem to show diseconomies of scale for large cities. Thus, it is pointed out that concentrated urbanisation is a problem for the developing world since it accentuates shortage of both energy and capital. It results in unequal development and growing inequality because rural areas are starved of investments and urban slums come up.

One needed to learn from the mistakes of the developed countries rather than copy uncritically; for instance, it has led to massive need for transportation and that too, individual rather than public transportation. Further, dispersed urbanisation would have led to less need for transportation, wide roads, flyovers and so on. The growth of the private sector in urban centres has been accompanied by increased criminalisation around land and property; another diseconomy of scale. Finally, living better in urban areas cannot be compartmentalised with some living in luxury while the majority live in squalor.

India uses a variety of energy sources — traditional, conventional and non-conventional. Since the 1970s, BOP crises have been triggered by the oil shocks and so have been the inflationary bouts. Thus, the economy's vulnerability to external shocks is related to the country's energy policy or to

the lack of an integrated energy policy. The focus on large scale production, setting up of heavy industries, like steel, aluminum, chemicals, etc., and concentrated urbanisation led to the demand for bulk power generation. These choices also led to increase in India's energy intensity. Small, local and decentralised power generation is possible through renewable sources but this is not considered useful except in local situations and effort at developing such technologies has been inadequate. A low energy intensity modernity could have been attempted but the ruling elite did not even contemplate it.

3.2.5 Health as a Long-term Issue

Health is absolutely essential for life and productivity of individuals, so one needs the best of it. However, there may be different routes to it. It is pointed out that in a non-integrated development path, health problems are being caused by growing air, soil and water pollution. Data on health indicators (death rate, longevity, incidence of disease, etc.) show that India has made considerable progress since independence. Even though longevity has gone up, older people confront growing health problems, loneliness and so on. So, increases in longevity and lower mortality may not reflect higher welfare even though they are a triumph of modern medicine. The dilemma of modern development may be understood by asking whether having more doctors and hospitals is a sign of good health or of poor health. There is a need for optimality but that requires assigning an important role to prevention but marketisation works to counter it since companies (pharmaceutical and hospitals) make profit through ill health but not prevention.

There is a vast gap in the health infrastructure between the rural and urban areas, backward and advanced states and within the urban areas between the well-off and the poor. Malnourishment amongst the poor is a cause of severe health problems. At the other end of the spectrum, the well-off sections are increasingly suffering from lifestyle diseases, like obesity and diabetes or problems of old age, like dementia. Under pressure of the modernisers, an expensive private sector has emerged in the health sector, which is leading to increasing costs of health for everyone, including the poor who can ill-afford it. Many private medical colleges have come up. The demand for seats is so high that these institutions are able to charge both high fees and capitation fee for admission. This has added pressure on doctors to resort to malpractices, bringing disrepute to what was considered a noble profession.

India had an extensive traditional system of medicine, which has been on the decline due to lack of research, resources, lifestyle and inclination of people to go for modern medicine. The traditional systems were harmonised with people's life style and their surroundings and in that sense were holis-

tic. Health is a merit good and therefore, a case of market failure, but this is ignored. The ongoing marketisation has imposed various irrationalities on the economy and one of these is turning health into a commodity. Patients are equated with an ordinary good and a profit is sought to be made through their illness, so that malpractices abound and trust between the doctor and the patient is often shattered and litigation is on the increase.

3.2.6 Poverty and the Marginalised

It is argued in the book that the most severe impact of colonial disruption of society is on the marginalised and the poor. The marginalised in society may not all be poor but the poor are certainly marginalised and more so in a marketising society. Exploitation is a key underlying reason for poverty but disruption in society accentuates it and thereby makes it harder to tackle.

Poverty is an issue of social perceptions, which are forever changing. For instance, in a consumerist society, which has few public goods, individual consumption would have to be high for a person to be considered to be above the poverty line. The social minimum necessary consumption, which would qualify a person to be treated as non-poor, changes both over time and across societies, and that is why the definition of who is considered poor keeps changing.

In India, as in the advanced countries, material welfare is taken as the yardstick for defining poverty. If so, animals are poor but we do not give this idea any thought since neither are animals considered to be a part of society nor given (hardly any) rights. To the colonial powers the colonised were lesser people and for their exploitation. Today's ruling elite, seem to have internalised this.

Inequality and perception of poverty are interlinked through expectations and that is why poverty and marginalisation are multi–dimensional, depending on incomes, employment, caste, religion, gender, inflation, food security, environmental factors, displacement, unorganised nature of much of economic activity, growing disparity and enclave development. Further, poverty needs to be understood not only as a current phenomenon of deprivation of sections of a population but also as part of a complex historical process, which leads not only to its existence but also its acceptance and rationalisation by the ruling elite. Due to colonial disruption there is a split consciousness of the ruling elite that has accepted development in two distinct circles, one for the elite and the other for the rest and these are weakly interlinked. The result is growing inequality and its perpetuation. It is pointed out in the book that these are not linked to shortage of resources. It is argued that while development in Europe may be well captured by the Lewis model it is not applicable to India because the conditions are vastly different so that ine-

quality results in more of it rather than declining over time as suggested by this model (Lewis, 1954).

It is argued that the poverty line, which is used to identify the poor in India, depicts extreme poverty and not poverty. Thus, there is a need to define a band for identifying poverty and in Indian terms it is likely to be wide. Further, it is argued that use of PPP (Purchasing Power Parity) is unfair to the poor twice over since they consume little of services and the low wages they receive is the cause of the PPP valuation being higher. It is also pointed out that consumerism through the demonstration effect puts pressure for greater consumption in society and increases the "minimum necessary consumption" thereby raising the poverty line and leading to persistence of poverty in spite of apparent progress. Finally, commercialisation by eliminating free goods given by nature aggravates poverty.

The blame for poverty is put on the poor themselves by blaming the rising population. But, it becomes a burden when there is unemployment and underemployment, so that the culprit is the lack of productive work for all. This brings in the issue of technology and capital intensity. All production, even traditional agriculture or handlooms, require technology. So, the argument for greater employment generation is not anti-technology or for its stagnancy but for use of appropriate technology based on the stage of development of society. Rapid modernisation is based on leaps in technology (like a step function) and automation. It uses more capital and less of labour. In other words the issues of poverty, employment and technology are interlinked and dependent on the view society takes of itself.

The labour markets are also blamed for poverty. The argument is that they are not free and, therefore, there is inadequate employment generation. But, agriculture and the unorganised sector (93 per cent of the work force) where the labour markets are free do not support this argument. Employment is stagnant in agriculture due to labour saving technical changes and inadequate investment. Unfortunately, today, technology policy helps the large-scale increase its margins and control over the economy in the name of international competitiveness but it results in jobless growth. With NEP in 1991, investment decisions have passed on largely into the hands of the private sector and the markets so that employment generation has been relegated to a secondary position even more than earlier.

Another argument is that growth will take care of poverty and distribution does not matter; this is another technical fix that favours the ruling elite without helping reduce poverty. It is premised on the idea that it is better to create wealth and let it trickle down rather than make everyone share poverty. The book points out that not only is this a false dichotomy but the argument is self-serving. A variation of this theme is the present "growth at any cost" strategy, which depends for growth on the small elite class. This

class believes that they are the dynamic component of the economy and that they legitimately deserve a higher share of the national income. They extract concessions from society (lowering of taxes, control over natural resources and subsidies) for keeping growth going and thereby marginalise the poor. The ruling elite are so self absorbed that for them the lack of concern for the poor is indirect and not direct.

Poverty is aggravated by inflation since it redistributes incomes from wage and salary earners to businesses. As prices rise, workers not only lose share in national income but their real incomes decline. Increasingly, the WPI-based inflation is unrepresentative of the inflation faced by the consumers. So, even if their (organised sector workers) incomes are indexed, it is partial. The problem is aggravated by the sale of cheap spurious goods on a large-scale because one is getting less at a given price. The problems are compounded by the rapidly changing consumption basket under pressures of consumerism and the process of privatisation. This creates the paradox of a strained family budget in spite of falling inflation rate because provision has to be made for the new items of consumption. The government uses this complicated situation to put forth statistics so as to hide the reality and show itself in a favourable light.

3.2.6.1 Disaggregation of Poverty

Policies based on trickle down have a differential impact on various segments of population and this is reinforced by marketisation. Amongst the many roles the public sector has played in post-independence India, an important one has been to help the poor and prevent poverty from getting more entrenched. While poverty continues in spite of the public sector, but, without it the situation could be worse. With the dilution of the role of the public sector this cushion has declined. However, the pressures of a democratic system periodically force the ruling elite to focus on poverty removal and the implications of growing inequity. Further, the panic in the Indian state is palpable with the PM repeatedly stating that Maoism is the single biggest internal security challenge to the state and implying that something needs to be done to tackle it. Some schemes, like MGNREGS, are a consequence of this but no fundamental change is being thought of to remove the basic causes of poverty and inequality. In fact, such schemes are the fig leaf that the government uses to establish its pro poor credentials so that it can continue to pursue its current anti-poor policies.

The regional dimension of poverty and growing inequity across states is generating divisive politics in the country. There is a case for decentralisation in spite of the local vested interests, which thwart policy through elite capture. The political imperative is that it has to be made to work if empowerment is to reach the lowest tier. For its success, Right to Information (RTI)

is crucial but the institutional framework to make it effective is missing, since it is largely run by former bureaucrats and favourites. Poverty, corruption, governance and policy failure link the political and the social with the economic issues.

Public awareness of issues relating to poverty can help in dealing with it but that depends on its depiction in the media, literature and arts. Public perceptions of poverty are revealed by the common use of phrases like "Do kauri ka admi" when we wish to run someone down; poverty becomes a derogatory word and dignity is denied to the poor. Thus, the elite's day-to-day perceptions reveal how much these have marginalised the poor.

Amongst the marginalised groups the Dalits and the Muslims are the most disadvantaged. Further, women amongst all groups, including the marginalised, are the most marginalised. Women suffer double exploitation; within the house and outside if they work. They are exploited even by the exploited. Women's work at home is not counted, so that they are financially weak. Unfortunately, for the successful ones, the fight for equality seems to be limited to joining the elites. It does not lead to creating generalised movements for extending democratisation across society.

Scheduled tribes in India have been characterised as backward due to their low socio economic status. They are not able to take care of the forests as they used to because of adoption of unfamiliar technology and this is leading to a crisis in their lives. They needed to develop at their own pace in a holistic manner. But, now that they are discovered to be sitting on land with large natural wealth, they are sought to be displaced by miners and businessmen in league with the politicians. The latter consider it their right to exploit these resources. Modernity in India has remained formal and limited to increasing consumption but social institutions and consciousness have not transformed to become sensitive to others. Unfortunately, the leadership of the marginals has turned out to be corrupt and has paid lip service to them since it has mostly lent itself to co-option by those in power and has joined in the loot by indulging in corruption on a large scale which affects their constituency the most.

Today, the nation has the capacity to eliminate poverty, but this has not happened in the last six decades. Poverty is discussed in terms of a number, which ignores the social and political discourse and lends a garb of justice to an inherently unjust situation by pretending that something is being done. To the ruling elite, these are not priorities since social and economic justice has little meaning in comparison to their own limited interest in joining the international elite. It is no one's case that poverty has suddenly emerged after 1991. The ruling elite's goal of achieving modernity marginalised the poor just like the British colonial rule marginalised the colonised in the name of

civilising the barbarians. For the marginalised, the elite always point to a glorious future ahead — 1947, 1980, 2001, 2020 and so on.

3.2.6.2 Poverty, Environment and Technology

Poverty is aggravated by pollution and India is one of the most polluted countries in the world. Often the marginalised are blamed for their own poverty due to the impact of their actions on the environment. Since poverty implies a low resource base for the poor it forces them to look for free goods provided by nature and to overexploiting these where possible. Mrs. Gandhi in the Stockholm Conference in 1974 said, "Poverty Pollutes". India's problem is that at a low level of per capita income and consumption, compared to even most developing countries, the pollution of rivers and air is possibly the worst in the world.

For the poor, the redeeming feature is that they recycle resources on a large scale and save the environment from further degradation, while the rich resort to waste. So, while poverty pollutes, the bigger culprit is the consumption of the well-off. Pollution in the poor countries is aggravated by their production of cheap and polluting goods for export to the rich countries and also because they recycle the waste (like computer waste and ships) of the advanced nations. So, pollution is exported to the poor countries and the poor by the rich. When would some leader stand up and say, "affluence pollutes".

Society's long-term survivability requires a careful use of resources and curbing of waste. The full environmental impact of modern technologies taken together is global in nature. The poor and the marginalised are also illiterate or ill-educated and lacking in skills required to understand modern technology and use it the way it should be and thereby cause pollution. They are skilled in traditional technologies but with regard to the modern ones, they are unskilled.

The risk involved in using any new technology is high because of a lack of complete understanding of its consequences. In an earlier age, new technologies neither had global effects nor came in rapidly. That has changed and today we are disturbing the natural balance evolved on the planet over the last few billion years. While technology, no doubt, has the potential to solve human problems and even eliminate poverty, its indiscriminate use is creating social and environmental problems.

Is it inevitable that modern development has to be at the expense of the environment? If so, the corollary is, either way, poverty would persist. Some argue that development would eventually eliminate poverty through trickle down and till then pollution has to be accepted (Kuznets Environmental Curve). However, there is no certainty that this would be temporary. What may have happened in the case of the currently advanced economies may not happen in the developing world since the conditions are historically dif-

ferent. It is not clear that there would be any transition to a cleaner environment for the poorer nations if we continue as it is.

In brief, the poor no doubt pollute but this is out of desperation, lack of education, poor technology, coercion and corruption. It is the well-off sections with their consumerism who create a bulk of the pollution both directly and indirectly and this is the result of choice (unlike the poor) and can be checked.

India is not unique in having poverty, inequality, marginalisation and pollution but the ability to deal with them has an inverse relationship with the extent of social disruption a nation has historically suffered. In the case of India's ruling class since this disruption has been large it has substantially reproduced colonial practices. Thus, poverty, inequality and marginalisation have been residual issues in comparison to achieving Western modernity.

All this points to the underlying societal processes that create a socially defined poverty and also sustain / perpetuate it. Many in the ruling elite suspend judgement and look the other way. Social structures have emerged that help the citizens live with it without feeling uncomfortable. Poverty ought to challenge any democrats notion of social justice but it hardly does so. The decline of the judiciary with long delays, opacity, expense and corruption have put it beyond the reach of the poor. Its conservative stance after 1991 has accentuated the feeling of lack of justice in society. Democracy, no matter how flawed, remains the only hope for the poor that their voice may be eventually heard. It is argued that all this points to the idea that "poverty is the poverty of the mind" and our education and its content have a strong bearing on it.

3.2.7 Knowledge Generation

Commercialisation is sweeping education and it has lost its character of being a noble profession and, therefore, much of its earlier social standing. This has adversely affected knowledge generation. Intellectual property rights (IPR) have become important because they convert knowledge into someone's property to earn an income. Opposition to IPR is seen to be romanticism since the only motivation recognised is making money. This suits the corporates. Human beings have been turned into human capital, yielding a return and education has become human resource development because people are a resource. Man is not granted a distinct position in society and has become just another factor in production. Markets are created where they did not exist.

Money determines choices so that increasingly the popularity of subjects for study is being determined by marketability and this is being influenced by the corporates. Entire curricula are being changed in institutions and important subjects relegated to the margins. It is argued in the book that while

commercialisation may be more acceptable in the developed world it is hardly a solution in a vastly poor country. It is often said that higher education in the US is dominated by private institutions. This is not entirely correct since most of them are not for profit institutions but run on philanthropy and attracting government research grants. Further, the US system is drawing talent from the entire world and especially the developing countries by offering much higher salaries than would be available in the home country. Thus, what is working in the US is hardly replicable in India. Further, because of confusion about the national interest, educational policies in India are ill conceived and often counter productive. For instance, a lot of money is spent to train a handful of people to global standards but the best of them are exported to the West, not only leading to financial losses but also reducing the nation's dynamism and helping other's development.

Teaching-Learning outcomes are poor in India because of poor quality of teaching in schools. There is lack of basic infrastructure, which not only demoralises the children but also the teachers. Large numbers of children drop out from schools at an early stage due to poverty and many others drop out mentally since they do not find learning in the schools interesting. There is growing differentiation amongst the various classes due to the segregation amongst the schools. With few exceptions, the state of school education is poor not because resources are scarce in a poor country but because of a lack of a perspective. By not granting the rightful place to school education, the nation has displayed a lack of commitment to its own future.

Since education has to be viewed in the long-term context, it is argued that it cannot be valued like other goods. On the one hand, monopoly / oligopoly elements appear easily in this field, which potentially leads to high prices and excessive profits. On the other hand, the consumers, the families, have little idea of what they are getting into and cannot easily determine what they should pay. There is acute asymmetry.

Is society short of resources for financing education? That depends on the priority that society places on education. If the goal is independence of thought, equity, creativity and social well-being in the long run, then resources would be found for high quality education at all levels. Whether it is the private or the public sector that spends the resources, these are national resources, so the issue is which of the two would serve the national purpose better.

Basic weakness in knowledge generation leads to problems in science and technology (S&T), which is the key to successful globalisation. Nations that lag behind are dominated by others. The national leadership realised that S&T was the key both to India retaining independence and to modernise to catch up with the West. But, they chose an easy path, namely copy from the

advanced countries rather than work out an independent path. This flawed strategy led to the worst of all worlds.

India has made advances in modern technologies, like space exploration, nuclear energy, software and so on. In contrast, many Indians still use technology, which is several centuries old and there has been little innovation / change in their lives. Even in modern technologies, we are sending a space ship to the moon 50 years after the advanced countries did so. For the latest nuclear technologies, we signed a controversial deal with the US and gave it many concessions because we lack technology. We are far behind in technology for integrated circuits or aerospace.

Technology is a moving frontier. Today's advanced technology is tomorrow's intermediate technology and the day after's low technology. Thus, we can make steel or automobiles, which were high technology in the 1950s, but these are intermediate and low technology of today. We import high technology items for use but often it is denied to us by the advanced nations under the pretext of dual use technologies. It is pointed out that we are only developing low (like "jugad") and intermediate technologies but this does not amount to innovation since that would require us to improve on today's frontier world technology and not on the level of technology that we are working with, which has been superseded by the world decades back. In this sense, even though it hurts nationalist sentiment to say that we are hardly innovating but that is the truth.

It is argued that labour and capital are labelled by their vintage, namely the current technology it incorporates. Mismatch in these vintages results in inefficiency. Labour has flexibility because through education it can change its vintage. Higher the level of education and the better its quality, the greater the capacity to adjust to newer technologies by changing ones vintage. In this sense, literacy ought to be defined as the ability of the individual to adapt to the current technology and not just the old definition of being able to read and write.

The advantage of an early start is that the nation can keep upgrading its technology in a holistic way and may not have to depend on other nations. The advantage of a late start may be that the country does not have to waste time and resources in developing available technologies. The book points out that there are pre-conditions for taking advantage of a late start but India has not had them, and so, has suffered from the disadvantage of a late start. It lags behind in technology because of the inability to absorb advanced technology or to obtain it from others. The one advantage of late start could have been to use appropriate technology having learnt from the experience of the early starters but blind copying prevented that from happening.

Finally, it is pointed out that while technology brings solutions, it also results in problems and that is why it must be under society's control and not

become an autonomous force driving social change in directions that are unknown and that may create severe difficulties. The rapidity of change has left the Indian ruling elite confused about the nation's long-term interests and it appears to be chasing moving targets and mirages.

4. Black Economy: The Missing Dimension in Analysis

4.1 Developments in Case of Some Recent Scams

4.1.1 Scams from 2009 and 2010

In the 2G spectrum allocation scam, some top leaders and bureaucrats were arrested and one by one they have got bail. The Supreme Court has cancelled the 122 licenses that were fraudulently issued and asked the ministry to auction them through a transparent process. Foreign companies like Telenor and Systema that had invested in Telecom in India by purchasing some of these licenses have threatened to take the government to court or seek arbitration to recover what they claim are losses due to cancellation of licenses. It has been argued by some that there is no loss to anyone and in fact by giving spectrum cheap, the consumer has benefited through cheap rates for mobile services.

In the CWG scam the Chairman of the organising committee and others were sent to jail but they have also come out on bail. The Adarsh Society scam got a lot of public attention and is dragging on. As is usual, the Satyam and Madhu Koda cases are continuing in courts. In the Sukna land scam prosecution has taken place with the army officers involved receiving punishment. The family of Ruchika Girhotra has given up its fight to prosecute the former Haryana Police Chief Rathore because they are now tired of fighting the powerful forces pitted against them since 1993 when their daughter was driven to suicide. In contrast to these cases that drag on in India for years and decades, justice is meted out within months in the US — for instance, the Madoff and the Rajaratnam cases.

4.1.2 Scams in 2011 and 2012

The major scams of the first half of 2012 are the illegal allotment of Coal Blocks, Army Chief's allegations that he was offered a bribe in the Tatra trucks deal, Karnataka Wakf Board Land Scam, Andhra Pradesh Land Scam, Service Tax and Central Excise Duty fraud, Gujarat PSU financial irregularities and IPL match fixing and spot fixing scams. Apart from these, many smaller scams have come to light.

The CAG has accused the government of allowing "undue benefits" to private parties in the allotment of 155 Coal blocks. In the draft report, it estimated a loss of ₹ 10.7 lakh crore to the exchequer in not auctioning the

blocks. In the final report submitted but not yet placed in the Parliament, the figure has been drastically reduced but is larger than the loss in 2G spectrum allocation. Names of almost all the top business houses of India are taken in this context. Companies that have nothing to do with energy production and no experience in the field have also got allotments.

In the Tatra truck deal, the Army chief accused a former Lt Gen of offering a bribe of ₹ 14 crore for ordering trucks (which according to him are not up to the mark) at inflated prices. The implication is that former high ranking army personnel continue to act as go in between in defence procurement. Further, they do not mind going right up to the top to get deals since they know these people as former colleagues / their juniors. Finally, margins in defence deals can be very high.

The major scams to come to light in 2011 were Uttar Pradesh NRHM scam, ISRO's S-band scam (also known as ISRO-Devas deal), KG Basin Oil scam, Goa mining scam, Bruhat Bengaluru Mahanagara Palike scam, Maharashtra education scam, Mumbai Sales Tax fraud, charges of corruption against the former Chief Justice of India and MGNREGA scams in UP, Orissa, Jharkhand and MP.

In the NRHM scam, medical personnel who could have posed a threat of exposure have been bumped off thus pointing to the involvement of a Mafia which buys silence or eliminates people who are a threat. It points to the continuing widespread malpractices in the medical profession. The ISRO scam which took place many years back has come to light now and losses are estimated to run into lakhs of crores. Action has been taken against the top brass of ISRO at that time.

A counter argument for allotting natural resources cheap is that this leads to lower prices. It is said that cheap coal keeps energy prices lower and cheap spectrum is keeping the prices of mobile telephony low and helping its spread. These arguments are incorrect because the 2G licenses were sold by the allottees for a much higher price soon after allotment (which revealed the true price of spectrum) and the new company did not get the benefit of the low price of allocation of spectrum. Thus, pricing of mobile telephony was based on the higher price. Further, those who did not sell the licences and themselves set up services they also charged the same higher price as the newer companies and had a windfall gain. Similarly, allotting coal blocks cheap has not resulted in cheaper energy but windfall gains since the prices of energy are determined by international prices and not by Indian costs. For instance, ONGC gets a price related to the international price for its crude even if its cost does not increase / change. Thus, ONGC makes huge profits and its management lives like kings. In the case of the allotment of KG Oil blocks also windfall gains have occurred.

One thing common in the various large scams coming to light recently is that they involve the allotment of natural resources at cheap prices to private business groups. All of them point to the functioning of the "Triad" or of crony capitalism. Natural resources belong to the nation as a whole but under NEP, they are being privatised at cheap prices to give undue benefit to private parties. Thus, NEP have changed the model of sharing the loot — now businessmen have become even more dominant than before. The regulators for fixing prices (like in telecom, insurance and so on) are the new targets for private sector to manipulate appointment of favourites so as to derive undue benefits.

Estimates of the opportunity cost of flight of capital from the nation since independence vary between $462 billion to $8 trillion. Strong movements have erupted on the issue of corruption and the need to recover Indian black savings stashed abroad. Many now believe that if this money could be brought back to the country all its problems would be over. It is clear that corruption, an aspect of the black economy has taken centre stage in the nation's consciousness and the comparador character of the ruling elite has become clear to the public which is no more willing to tolerate this. Perhaps the insensitivity of the ruling elite even in an imperfect democracy is now reaching its limits.

4.2 Black Economy is Systematic and Systemic

If the black economy has become 50% of GDP then it has to be "systemic and systematic". This is only possible if there is an underlying triad constituting the corrupt businessmen, politicians and the executive who share the gains from illegality. The former keeps most of the ill-gotten gains giving a small share to the other two. The corrupt businessmen need the other two to make illegitimate gains by violating rules or manipulating policies. The other two need the businessmen to manage their ill-gotten gains, so that there is a neat fit for all three at the expense of the rest of society. Increasingly, criminals control the nexus leading to growing criminalisation in society and to large-scale entry of criminals in the legislatures.

Financially honest leaders at the helm of affairs do not matter since they survive as long as they allow the growing corruption of the triad. Not making money personally is not the point but giving the system legitimacy and allowing the corrupt system to flourish are tantamount to intellectual and political dishonesty. Honest leaders who have tried to take on the black economy have been forced out. All this has undermined democracy in the country and brought about lack of accountability in public life. For the ruling elite, self interest takes precedence over national interest, so that they feel they are accountable to their bosses and not to the nation and lend them-

selves to manipulation for wrong doing. This is a throw back to the colonial rule when the national interest did not matter and only loyalty to the ruler was paramount. The leadership feels it is not accountable to the people, so it makes promises only to break them and that has led to its own decline, cynicism amongst the people and reinforcement of the colonial disruption. The existence of a large black economy has meant that only the colour of the skin of the rulers has changed with independence.

It is pointed out that the black economy affects every aspect of the nation's life, the entire elite class and all the sectors of the economy and, therefore, has hollowed the innards of the nation, like termites do. Unfortunately, most analysts ignore this aspect in their analysis and it is a wonder that they ever arrive at the correct conclusions. Black economy affects all the economic variables. For instance, the black economy alters the pattern of consumption and falsifies data on consumption, so that it has a bearing on the estimation of poverty. Thus, the method of measuring poverty and discussion on it would remain incomplete without taking the black economy into account.

Further, the black economy results in failure of policies — macro and micro. For instance, planning, monetary and health-related policies have not achieved what they were intended to. Policies on paper differ from those in practice, adversely affecting governance. Statistical analysis of Indian economy, which does not take into account the black economy cannot give correct results due to the problem of mis-specified variables. Businesses violate laws to make higher profits, resulting in growing disparities and weakening of democracy. Due to flight of capital, a capital-short country has exported capital on a large scale (its opportunity cost to the country runs into a few trillion dollars). It has been the primary cause of the BOP problem that has forced the country to offer concessions to foreign capital and has increased leverage of foreign governments on our politicians and policy makers. It opens our top policy makers to blackmail by unscrupulous elements inside and outside the country.

Unfortunately, the black economy has become the excuse to push for marketisation rather than social change — a technical fix. The ruling elite has used it to extract concessions from society by getting direct taxes reduced and easing social controls over their greed, something also encouraged by the marketisation let loose after 1991. Dozens of committees have studied various aspects of the problem and made thousands of suggestions of which hundreds have been implemented but the black economy continues to grow as the plethora of scams in all aspects of our social functioning reveal every day. It is not surprising that we forget the scams the nation's attention was focused just a little while back — Satyam, Koda, 2G, CWG and Adarsh society in a long chain — as more and more of them tumble out of the closet

— Tatra trucks raised by the Army chief and allotment of coal blocks pointed out by the CAG being the latest. In brief, the black economy reinforces colonial disruption and there is no technological fix for it; the problem is one of political will and can only be tackled by movements that change our basic thinking.

5. Inter-Relationship between Modernity, Marketisation, Black Economy and Disruption

An aspect of marketisation is the narrow conception of people as homo-economicus to the exclusion of other motives for action or modes of human interaction. Markets and technology, creations of society now dominate over it. They are considered to be "objective" while society is taken to be "subjective" and, therefore, has had to retreat. This has led to the marginalisation of the social aspects of life — political, sociological and historical. No wonder, social issues, like poverty and inequality are viewed narrowly and thought to require only a technical fix in the market. The individual need not feel guilty about inequality or consumerism and policy can ignore these aspects and in fact encourage them. In the drive towards marketisation, market failure in large parts of the economy and the corresponding need for government intervention to achieve optimality are ignored. Thus, growing marketisation and the drive to create markets where they did not exist has led to social crisis and contradictions among the various aspects of life.

As marketisation has penetrated societal functioning, individuals have come to accept that they are homo-economicus. This, along with short termism, has legitimised the idea of making profit in any way and money has become the single most important social value. Greed has been raised to a new high pedestal as social restraint has declined. Conscience is seen as a cost to individuals, which prevents them from acting in their own best interest and, therefore, in a profit maximising world, it has to be minimised — one need not feel guilty about one's actions, however inappropriate they may be. Individuals become more and more atomise, alienated and self-centred so that they appear to be nothing more than a sophisticated machine or a cog in a big machine. The most important principle guiding many individuals is personal interest — whatever suits me is correct.

Consumerism is a corollary of being homo-economicus. The social concern of those who have made money (like in the entertainment industry) seems to be in inverse proportion to the amount of money they make. The notion of the good thing in life is systematically spread in society through advertising based on sex and violence and creation of addiction. These have become a part of the good things of life. Resisting / opposing these (the new

norms) becomes counter intuitive since powerful forces are pushing them. As the world has become more complex and non-intuitive, common sense does not always work or is relevant only in a limited context and the individuals get confused and tend to retreat into a shell allowing things to drift.

Marketisation leads individuals to view social problems in isolation rather than holistically. For instance, inflation, which is a social phenomenon, is largely treated as a monetary occurrence by policy makers. What is ignored is that it is being fuelled by:

(a) the excess draft of the elite sections on the national resources due to their rising consumerism,
(b) the choice of energy and capital intensive development path,
(c) the path of modernisation, which has neglected agriculture in favour of the non-agriculture sectors, and
(d) international developments.

While the first causes shortage of resources and mismatch between savings and investment, the others lead to cost-push inflation, especially during periods of shortages, like in a drought year or when energy prices rise globally. The black economy reinforces these factors by promoting consumerism, waste of social resources, raising profit margins of businesses and marginalising agriculture. Thus, inflation can only be understood when national and international factors, both long-term and short-term, are taken into account.

Marketisation and homo-economicus focus on the short-run rather than the long-run, so that the nature of constraints and the solutions change. For instance, consider urbanisation. In the short run, traffic problems can be taken care of by widening roads and building flyovers, while in the long-run this does not resolve the problem as more automobiles flood the markets and the discussion has to focus on the nature of urbanisation.

Today's intellectuals shy away from expressing an honest opinion because they have to appear to be "reasonable" and "balanced". It is optimum to keep those in power happy to serve one's interest by suitably moulding one's opinion. Not taking a stand is a profit maximising strategy. This sets back knowledge generation.

Marketisation is leading to an international division of labour — that between the polluting and clean technologies and the high, the low and the intermediate technologies — and determining the global pattern of production. The poorer nations are at the receiving end of this process and suffering from both pollution and shift in terms of trade against them. This is impacting the working conditions of labour in the developing world and also their health. But that does not matter since they are no more than sophisticated machines.

In brief, modernity by marginalising the majority and marketisation by treating the individual as an economic agent bereft of social aspects, are aggravating the colonial disruption. In the drive for making profits by any means, greed has been raised to a new high pedestal and makes a growing black economy acceptable to the ruling elite. All this reinforces individualisation and alienation of the citizens, thereby strengthening disruption.

6. Political Aspects

Often, rise of the markets is associated with spread of democracy in society. It is argued in the book that historically there was a simultaneity between their evolution and that should not be read as causation. At the beginning, the social and political movements against monarchy were strong and the marketisation process was too nascent to counter them. In contrast, in India marketisation has been strengthening at a time when the movements for democratisation are still weak. In other developing countries where the movements have been even weaker, dictatorships and authoritarian rule have accompanied the rise of capitalism.

Weak movements in India are a function of the weakness of the leadership whose quality deteriorated rapidly after independence and that, in turn, weakened the movements. Leaders, even of the marginalised classes, have easily got co-opted. A majority of the Indians had not internalised any notions of democracy, so they could not conceive of choosing their leaders. In the 1951 national elections (and later) many took their cue about voting from their local feudal heads (mukhiya) in the villages. Today also there are vote banks, people who deliver blocks of votes during elections and musclemen (bahubali) who manage the elections and that is why, no one without an election machinery gets elected.

Gandhi emphasised the inter-linkage between ends and means. If the means used are inappropriate, even if there is success, the result would differ from the end that was initially desired — the goal posts shift. It is the "clever" policy makers and leaders who think that for tactical reasons compromises can be made to achieve goals but do not see that in the process new problems arise. India's post-independence history is replete with examples of policies that have led to emergence of new and perhaps bigger problems. These are characterised as non-solutions in the book. At a grand level, developments in post Mao China illustrate this. The road to catching up with the West, the capitalist path, has by now changed the goals of the Chinese people whose striving for equity has become weak and who seem to have mostly rejected their traditions in favour of copying the West. Would they not become a second hand Western nation with a degraded social and environmental structure?

In India too, long-term goals have become irrelevant in the rush for consumption and growth. Social concerns have declined, like striving for equity, honesty and simplicity. Priorities of people have changed as they have become atomise and alienated. It need not have been so if the elite were not in a hurry and not enamoured of Western modernity. They copied the Western model hook, line and sinker, including the mistakes. Since the mistakes were inevitably a part of the path, there was a need to rethink. But, that would have slowed down the catching up with the West, which the elite were not willing to consider — perhaps it reflected a lack of intellectual capability and / or lethargy!

The nationalist spirit of the elite has been in doubt given how much capital they have taken out of the country (Section 4.1.2 above) and how they subvert policies. They have replaced the colonisers; what does nationalism mean for the elite. Many amongst them (say, Mrs. Indira Gandhi, who took on the might of the Seventh Fleet in 1971) hardly understood what an independent path implied. They conceived of it in narrow personal terms ("India is Indira"; allying with the Left of Centre in one avtar and backing her son's Rightist policies during the Emergency), leading the nation into blind alleys for the sake of their party and personal interest (Kashmir, Assam, Punjab, concentration of power in the PMO and so on).

Another staunchly nationalistic stream has encouraged divisive and chauvinistic politics and created problems of identity and inclusion in a multi-cultural society and a complex nation. The divisions this has fostered is a throwback to the pre-British India, when the British exploited these divisions to colonise India. Today, the major challenge confronting India is one-way globalisation and the external forces (USA, international finance capital and its instruments, like the World Bank) but due to the internal divisions, instead of challenging them confidently (as China is doing) India is busy dousing one fire after another. Conflicts amongst caste, community, regions and class are all playing up simultaneously.

In contrast to these two brands of nationalists whose orientation has been internal, there is a new segment of the ruling elite whose principal aim has been to quickly link up with the international elite (globalise). Its emotional attachment with the rest of the people and the nation is weak. These three groups have a strong overlap and are not in water-tight compartments. The first group has practised soft Hindutava and the policy of "divide and rule'. The second group, in spite of its protestations about Swadeshi, has invited foreign capital as fast as the others and resorted to flight of capital. In its writings, it quotes foreign authors more than the Indian ones. The third group would like to remain a part of the Indian elite for as long as possible since the country's feudal ways enable it to live in regal comfort, which would not be possible in the West.

These groups are increasing their hold over the resources of the nation by privatising (looting) natural resources, like land, water, minerals and forests. It has decided to go for "growth at any cost", damaging the nation's environment, displacing large numbers from their home and hearth and creating unprecedented inequities. On the one hand, there is grinding poverty while on the other hand India has some of the wealthiest individuals in the world. Where grabbing resources is not possible legally it has resorted to illegality on a large scale (Bellary and Koda cases) so that the black economy has grown to huge proportions with all its anti-national implications. None of this is seen as inconsistent with nationalism.

The result is that the ruling elite has landed itself in severe contradictions leading to massive political and social tensions, which it is finding difficult to tackle. India presents the picture of several civil wars simultaneously being fought in the country — Lalgarh, Nandigram, Niyamgiri, Raigadh, Telengana, the Jat and the Gujjar movements, Kashmir, Nagaland and above all the Maoist challenge to the Indian state.

Today, India is being projected as an emerging power. Balancing the picture with the various negatives hurts the sentiment of the elite, who have shut their eyes to these features all around (one mega star said where is poverty in India). This inability to see the reality has been with us since independence. For instance, Nehruites praise Nehruvian policies uncritically. India is considered to be fortunate to have had him and that is true. They hail the process of modernisation set in motion by him. Persisting deficiencies, like continuing poverty are taken to be transient and which would be overcome if Nehruvian policies are fully implemented.

However, a large segment of Nehruvians has deserted him in favour of marketisation. Another stream, the staunch nationalists see NEP as a departure from the Nehruvian framework and identify this as the cause of the current problems. They want a return to the old path. The book argues that both these are limited and short-run perspectives that need to be changed if the nation is to overcome its problems and emerge as a great nation.

The elite react negatively to the western criticism of India's poverty and degrading and uncivilised life. While initially the West went overboard with description of India as the land of tigers, snakes and semi-naked godmen (there was an element of truth in that) since this was a static description. The negative reaction of the elite was because the West was its role model and the peer group it cared for and the Western characterisation was seen as a rejection. Did this spur action to rectify matters? Hardly, because that would have meant sacrifice from the elites, which they wished to avoid. It wanted to have the best of both worlds — accepted by the West and continue to live in luxury in India without caring to overcome the uncivilised conditions prevailing.

India is a case study of how external intervention in a society (colonisation) destroys its dynamism over a long period of time. This is also true for many other former colonies, like the Arab and African nations. It is argued in the book that intervention by outsiders disrupts the relationships between the various groups in society and this becomes difficult to restore later on. The colonial powers accentuated the existing divisions amongst the various groups to be able to rule. After independence, rather than these schisms narrowing, they have got aggravated due to the colonial hangover.

The lesson of colonisation is that interference by outsiders is detrimental to societies over long periods of time. Tricky issues like what to do in Darfur will remain? While there, the world may have to intervene but in general as foreign interference declines, such cases are likely to decrease. Formerly colonised nations would have a chance to regain internal balance amongst communities. Is it realistic in today's world to even conceive of powerful nations with neo-imperialist designs vying with each other for control over natural resources to stop interference?

South Africa is an important example of disruption of a society due to colonisation. With its tall leaders — Mandela, Desmond Tutu and so on — it has had to struggle to transform itself. Its national struggle led to far deeper democratisation in the oppressed than in India's case. There was no elite Black group that had been largely co-opted by the Whites and which came to power — the leadership itself emerged from the common people and had suffered like the people did. But the leadership caught up in the political fight against apartheid never had the time to evolve an alternative path of development, which could be pursued after the end of the White rule. So, when they came to power, they continued with the path of dependent development. Mild attempts to tinker with it led to a crisis triggered by global capital with its large investments there and even Mandela at the helm had to retreat.

The struggling Black leadership did not contend with the idea of societal disruption and how to overcome it. For the poor, the path of Western modernity is not a solution but they are trapped since what currently prevails is not suitable and nothing else has been worked out. The control of global capital over the country has increased so that the fear that if they tried an alternative path there would be complete breakdown and chaos has only increased, leading to policy paralysis. Thus, the poor in S. Africa are in for a long haul to transform their poor living conditions. In the meanwhile, disillusionment and alienation are growing, thereby reducing the chances of a transformation at a later date. India has shown that it is not easy to overcome disruption under the best of circumstances — where, in spite of Gandhi proposing an alternative, the elite rejected it in favour of the seductively powerful and readily available Western modernity.

Disruption's long-term adverse effects on societies across countries suggest that nations ought not to interfere in each other's affairs. Today, international conflicts are all around us with most of the countries in the world involved in some major or minor conflict with neighbours, over historical wrongs or over resources, etc. This makes the world an unstable place even for the major powers given the interconnectedness.

A corollary of non-interference is that nations should be allowed to develop at their own pace in their own way rather than be forced to develop according to someone else's blueprint. Further, indigenous people within nations should also have the autonomy to choose their own pace and direction of development. This is possible if the global powers and the international agencies that are forcing the pace of economic changes (WTO, World Bank and so on) need to be democratised so that coercion, direct or indirect can be reduced.

7. Question of Alternative(s)

7.1 Why an Alternative?

In India, violence, direct or indirect, is in the air. The growth process is itself based on violence of various kinds. Politicians and businessmen have increasingly cornered resources (land, water and so on) using violence against people and nature — destroying the environment, displacing people, creating greater inequality and damaging the idea of a nation. Systems have become unresponsive to the people and their plight, so that they are also forced to respond with aggression leading to a vicious cycle of escalating violence. Even those gaining from this process are facing difficulties. The modernisers argue for this path in the name of development. Their charitable view of the adverse impact of their actions on the marginalised is that these people should also modernise but if they are not able to do so, they are to blame for their own condition and they should not act as road-blocks to the others modernising.

The right of the marginals to develop at their own pace is denied. marketisation by itself is proving to be inadequate to force people to give up their customary rights to their resources for paltry sums of money so economic conditions are being created so that they give them up through coercion; this is jeopardising their future. With rampant corruption, the weight of the official machinery — political, bureaucratic and judicial — has been brought to bear on the people to let go off their hold over their resources. This is supplemented through private pressures and strong arm tactics, which the official machinery connives to overlook (as in POSCO and Singur). This violence is provoking a reaction.

The trend of growing violence, alienation and marginalisation are making the present path unsustainable in the long run. Hence, there is a need for alternative(s). The alternative has to be both to the policies followed before 1991, which were also leading to a crisis and the post-1991 policies that are creating a greater social crisis. Such an attempt was made in 1994 in the form of the Alternative Budget, as a vehicle of alternative policies (Kumar, 1994a). It placed people at its centre and not at the margins so that the motto "last person first" could be made a reality. Attempts at working out alternatives are thwarted by international pressures and the disrupted consciousness of the national political leadership.

Now, again there is a chance of working towards an alternative because the global economic crisis has prepared the ground for it. International finance capital has weakened considerably — economically and politically. It is too embroiled in its own crisis to tackle those at the periphery. Since the prospects of a double dip recession are high, some of the elite groups are more open to considering change. The power of the free markets to deliver has been dented and its capacity to destabilise social functioning and, therefore, the need for regulation are accepted.

From the extreme of "markets can do no wrong" it is now more acceptable that there has to be a balance between the government and the markets. The regulatory role of the former and that big government is not all evil but has important social roles to perform is acceptable. The domination by the world of finance and corporations is under scrutiny. It is accepted that the individual is weak *vis-a-vis* these entities and the only balancing factor is the government acting on behalf of the people. However, given the infirmities of big government and possibilities of the government and the corporate sector acting in concert (crony capitalism), there is need for people's control over both through a properly functioning democracy — it has to be strengthened.

Since the global economic crisis appears to be a fundamental crisis of capitalism, a basic rethink is likely in the coming years. Capitalism has been resilient and has weathered various storms it has faced. Can one project from that and claim that the current crisis will also be taken care of over time? Not really, a crisis may differ from the earlier ones since it may be more basic in nature or even be an irresolvable one. The current crisis has originated from the basic features of capitalism, namely nature of money, loss of trust in finance and the position of the US economy in world capitalism (Kumar, 2009c). These require basic rethinking and not mere tinkering and that would prepare the ground for thinking of alternatives not only for India but for the world.

When thinking of alternatives in the Indian context, apart from the economic, there is a need to deal with disruption of social consciousness and the black economy, which are key aspects of the current Indian society. Can

disruption be overcome and, if so, how? As suggested, the most crucial long-term social disruption has been the loss of value of ideas in the Indian society. Of course, this pre-dates the colonial period and led to it. Overcoming it is not just a matter of spread of education but it crucially depends on the nature of education and its content. Gandhi (1909) argued that there is need for clarity about the kind of freedom the nation wants.

Education can be used to spread subversive ideas or to create hegemony for an ideology as Macaulay's education policy aimed at (Ghosh, 1995). In post-independence India, due to its Western roots, education has eulogised Western modernity and discounted the possibility of creating an Indian modernity. In the US, which has one of the most dynamic education systems in the world and where a strong democracy is said to exist, perhaps there is less diversity of thought than that in many European countries or in India. This is because of its education system, which at one level is narrowly conceived so that questioning the fundamentals is at the margins.

A society is often constrained by its perspective and its incapacity to look at itself in the long run. Presently, our constraint is that we do not recognise the disruption of our social consciousness and its continuation in the post-independence period. This is a result of our dependence on Western thought, which has not faced this phenomenon in recent times and, therefore, does not theorise about it. Indians have to do it themselves by breaking out of the shackles of being "derived intellectuals" and that requires reform of education.

7.2 Parameters of an Alternative for India

Any alternative requires a social vision and that needs to be spelt out. But, society may lack a common vision and a consensus may have to be arrived at. The discussion above points to precisely that and how current policies in India are based on the elite's vision of modernity. The book spells out how this led to a societal crisis both before and after 1991. Its corollary is that there is a need for basic change in the form of an alternative to both the phases of the post-independence economy.

The alternative has to be democratic, incorporating the needs and the interest of the vast majority of the people. This implies a bottom up approach. For the vast majority, living in uncivilised conditions, the basics of life are crucial — productive employment, high quality education and health, sanitation and so on. These are the desirables that alternative policies need to focus on.

For these simple things of life, India has the resources — manpower, technology and financial wherewithal. None of these need to be imported. Any shortages can be easily made up through exports. Further, it is necessary to demonstrate that the "desirable is feasible" (Kumar, 1994a). That is,

the national resource base is adequate to achieve these goals in the not-too-distant future. Thus, the expenditure priorities and the sources of revenue have to be identified. This can be done either in the framework of a Plan or a budget. While the former is based on a five-year perspective the latter is annually drawn but within the five-year perspective. The budget framework was chosen for drawing up the alternative in 1993 and 1994 since that present both expenditures & revenues and is an annual feature which could be used for commenting on policies.

The alternative drawn up showed that by reordering the priorities the "desirable" can be achieved with the available national resource base. It was made clear that political will is needed to redraw national priorities (like spending 6% of GDP on education rather than 3%) and to tackle the black economy. The alternative showed how holistic and equitable growth was feasible, which would neither be less than the current rate of growth nor be a zero sum game. Many of the arguments put forth in the alternative budget about the trajectory of the economy under NEP have proved correct in later years, like the increase in inequity, growing pollution, difficulties in employment creation, problems in social sectors and decline in food availability per capita. At that time, it was hard to conceive how such anti-people policies could be implemented in our so called democracy. It was thought that it would be temporary but it has lasted more than two decades because the political parties have backed it.

Those opposed to an alternative argued that there is no alternative (TINA) to NEP. This was countered in the alternative proposed. Critics argued that global capital will make the alternative policies fail. It was argued in the alternative that this such an argument is tautological — in the current framework of neo-classical policies, if an alternative is attempted it could be doomed but not in the changed circumstances of the alternative where global capital would have a marginal impact.

The Amish in USA are an oddity but illustrate that TINA is not correct. The technologically most advanced nation has within it communities that reject modern technology and not only survive in spite of all odds but are growing over the last 50 years (Nolt, 2003). They face hardships and perhaps continuous crisis but they survive because they have faith in their beliefs. The Amish may be brushed aside as being marginal but they are unlike religious sects that survive on charity. They are a model of a viable economic group that survives heavy odds. Tibetans in India are also in exile from there land and are attempting to maintain a separate identity (*see* Annexure to the Report of the First Pay Commission of the Tibetan Government in Exile). If a nation was to follow a different path (like, Bhutan is attempting to) it would be far more successful. A big country, like India, could be even more successful if it pursued a viable holistic alternative.

In this book it is argued that one cannot think of the world and the nation as entities in a time-frame of ten or hundred years. The long run is much longer and has to be taken into account. Further, in the long run, the degrees of freedom are few even though in economics it is taken to be the opposite since more things can vary in the long run and technology opens up new choices and gives flexibility. In reality, if the perspective is holistic, degrees of freedom would be few even with technical change. No resources can be wasted, neither human nor natural. Even if travel to other planets or mining of the moon become feasible, the resources on the earth cannot be wasted and that needs a change in humankind's vision. The meaning of development has to change. It has to be far more in non-material terms, at the level of ideas, science, technology, culture, human relations, etc..

History of society is like the genes of a person. It predisposes society towards certain tendencies. These are not inevitabilities and can be remedied by social action based on new understanding but this has to be a conscious process. In this sense, the colonial disruption of Indian society predisposed it towards Western modernity and this can only change with new understanding and action. One can ignore this only at the cost of one's future. While a person can only mitigate the effects of her genes but not wholly avoid them, society does not face such determinism and has the option to change its course even if with some difficulty.

A Sufi singer of great power narrated how mothers in Punjab weave a cloth for the daughter's wedding and it occurred to me that that is how history works. The current generation weaves the cloth for the next one. It is not easy to change what has been knit into the fabric. Like a web, a pressure at one point makes all the other points stretch and resist change. The pointer is to the need of a holistic change as argued in this book. Thus, even fast growing China cannot be the alternative to copy even if it was desirable in some sense. The Chinese miracle has been a godsend for the self-serving Indian ruling elite wanting to copy the West since it obviates the need for an independent path of development requiring some sacrifice (as the Gandhian path does).

The option is not between China of now which is an example of an unsustainable model and the pre-1991 India, which was a failing model. Gandhi rejected Western modernity and civilisation in favour of an independent path. Unfortunately, to the westernised Indian elite this was not evident since they were blinded to its pitfalls. They have reproduced the mistakes of the Western path of development while leaving out many of the positive aspects of Western modernity, which clashed with their feudal thinking.

The Gandhian path as an alternative to the dichotomous growth path being followed would be a positive sum game. It would enable India to overcome the 200 years of disruption in consciousness and development in a

holistic way without jumping stages. It would allow the nation to take advantage of developments in the advanced countries, while learning from their mistakes. The gap in technology and capital intensity between the advanced sectors and the backward sectors would be minimal. Collective consumption would be encouraged and individual consumption minimised.

Demand in the economy would be led by mass consumption and collective goods so that it would be broad-based instead of being focused narrowly on luxury goods (*see* Kumar, 1994a). This would lead to focus on local production using appropriate technology, which would be more labour intensive. Growth would be benefited by rapid expansion of education and health infrastructures, which would not only generate a lot of employment but also lead to large productivity increases and flowering of creativity — a more civilised life for all. The amount of capital needed to produce a unit of output would be less so that investment requirements would be lower and can be met by the local economies and the government. The need to import capital or give large concessions to the well-off sections to raise the savings rate (as at present) would be reduced.

Most today think in a narrow framework and largely of the immediate. This book is an attempt to make the reader see the obvious, namely the need to understand developments in a broader context and over the long run. If this attempt leads to some people making this transition it would have succeeded in its purpose. There would be disagreements with the interconnections — political, historical and economic — that this book presents but that is the nature of social sciences; different frameworks and different perspectives contend for space in the world of ideas. Disagreements over the details and the facts would matter less than a rejection of the idea of the long-run and the interconnectedness as the key to understanding the Indian reality.

Rather than rush for current growth in material terms alone and which is not helping those at the lower rungs in spite of the claims of poverty reduction, and which is imposing heavy environmental, social and political costs, it is better to have a more balanced, equitable and just growth at our pace and with our understanding, so that we can build a better society in the long run. This would re-establish trust in society that is at present weakening. The ruling elite have to consider the increasing social and political disarray and to control which they are increasingly becoming autocratic and brutal and, therefore, damaging the chance of building a harmonious and peaceful society. Is the cost worth it? The book points to why, the answer has to be a resounding no. To appreciate this, the nature of our disrupted consciousness and the historical path it has set us on has to be understood.

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developments, the role of knowledge generation through education and science and technology, and the hierarchy of policies, all of which are germane to an understanding of the progress and hiatus in India's economy since independence.

There is no gainsaying the fact that the Indian economy has achieved much in the period. The point, however, is that it is too little compared to what was needed to be achieved and that the nation is headed in the wrong direction, highlighting the disjuncture between the short run and the long run — a running theme in the book. The approach adopted in the book leads to newer questions and answers.

The Author

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Why does India remain poor and backward?

Within this over-arching central issue, this book paints on a wide canvas seeking answers to a host of questions and issues about India's development since independence, including:

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- Is poverty the poverty of mind?
- Can growth alone take care of poverty, irrespective of distribution of incomes?
- Why and how are economics and politics intertwined and inseparable?
- What are the causes of a rapid deterioration of India's leadership after independence?
- What are the implications of India's ruling elite having little value for ideas?
- Education is important but is its content any less important?
- Did Indian elite's belief in Western superiority lead to Gandhi's marginalisation?
- Why does copying from the West result in non-solutions?
- Do disruption in society and black economy reinforce each other in a vicious cycle?
- Why has globalisation been a one-way street for the last 250 years?
- Why is globalisation currently globalisation only of the elite?
- Is the faster growth of the Indian economy from 1980 the result of sectoral and compositional changes or is it just due to opening up?
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